USAID
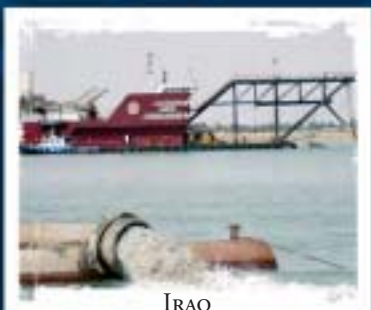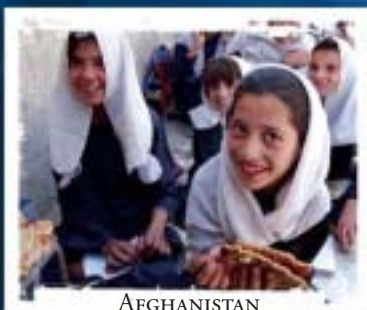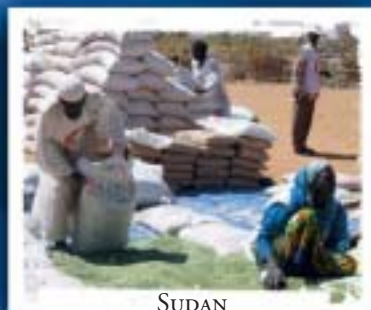## FROM THE AMERICAN PEOPLE

ON THE FRONT LINES

Iraq

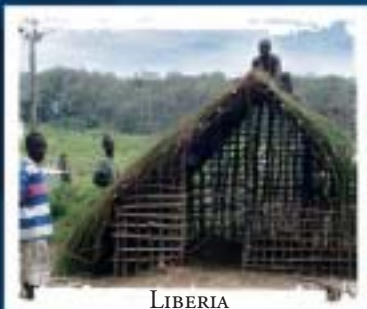Afghanistan

Sudan

Russia

Liberia
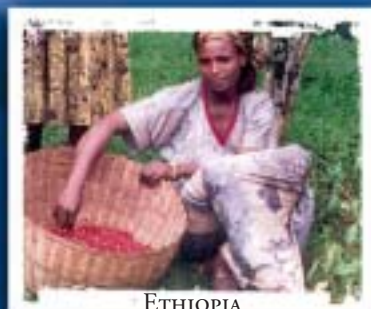
Ethiopia

Caribbean

Haiti

Indonesia

Performance and Accountability Highlights
Fiscal Year 2004

www.usaid.gov

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An electronic version is available on the World Wide Web at: www.usaid.gov/policy/par04/

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e-mail: usaidpar@usaid.gov

November 15, 2004

USAID
FROM THE AMERICAN PEOPLE

PERFORMANCE AND

ACCOUNTABILITY HIGHLIGHTS

FISCAL YEAR 2004

The U. S. Agency for International Development (USAID) plays a vital role in promoting U.S. national security, foreign policy, and the war on terrorism by addressing one of the root causes of violence today: poverty fueled by a lack of economic opportunity. USAID is the principal U.S. agency providing foreign assistance to developing and transitional countries, where the majority of the world's poor reside.

As stated in the President's *National Security Strategy,* USAID's work in development joins diplomacy and defense as one of the 3 key pieces of the nation's foreign policy apparatus. USAID promotes peace and stability by fostering economic growth, protecting human health, providing emergency humanitarian assistance, and enhancing democracy in developing countries. These efforts to improve the lives of millions of people worldwide represent U.S. values and advance U.S. interests in peace and prosperity.

MISSION

Create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.

VALUES

LOYALTY: *Commitment to the United States and the American people.*

CHARACTER: *Maintenance of high ethical standards and integrity.*

SERVICE: *Excellence in the formulation of policy and management practices with room for creative dissent. Implementation of policy and management practices, regardless of personal views.*

ACCOUNTABILITY: *Responsibility for achieving United States foreign policy goals while meeting the highest performance standards.*

COMMUNITY: *Dedication to teamwork, professionalism, and the customer perspective.*

A Message from the USAID Administrator

"Iraq. Afghanistan. Sudan. Liberia. Haiti. These were the major news stories this year, and USAID was right there… on the front lines."

I am pleased to present our *Performance and Accountability Report* (PAR) for Fiscal Year 2004, which is designed to inform the Congress, the Administration and the public about how the principal U.S. government agency involved in foreign assistance has responded to the major crises in the developing world, such as reconstruction in Iraq and Afghanistan, averting famine in Ethiopia, and helping hurricane victims in Haiti.

The thousands of USAID employees working in Washington and around the world have been *on the front lines* in some of the world's most dangerous places, fighting malaria and AIDS as well as building schools and clinics as the dust of conflict settles. What is clear is that USAID and "development" are playing a critical role, along with diplomacy and defense, in addressing our nation's most pressing national security demands.

As President Bush has said, fighting disease and hunger remains a goal of the United States, and the U.S. Agency for International Development has continued to work hard over the past year to help the poor nations of the world improve the standard of living for their people.

As the Administrator of the nation's foreign assistance agency, I am extremely proud of our many major accomplishments during this Administration.

The dedicated men and women of USAID deserve great credit for their devotion to the achievements of the Agency's mission and goals. Yet, there remain many challenges. Many countries are struggling in their transition from authoritarianism, controlled economies, and closed markets. A number of the new democracies remain fragile. The HIV/AIDS pandemic is spreading, killing millions, threatening children orphaned from the disease with perennial poverty and hunger, and destabilizing governments. Famine continues to stalk entire regions, particularly in Africa. U.S. foreign assistance, and USAID, must move in new directions.
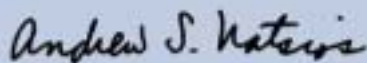
USAID will turn its attention toward failed and failing states, which the President's *National Security Strategy* recognizes as a source of our nation's most significant security threats—international terrorism and proliferation of weapons of mass destruction. The people of the United States are rightly proud of our nation's humanitarian contribution. Yet, to prevent human suffering and protect our national security, we must devise bold, new approaches to arrest the slide of weak states toward failure.

USAID's Business Transformation Executive Committee (BTEC) continues to modernize business systems and automate procurement and acquisition within the Agency. We have installed the first unified financial management system in Agency history, and have completed the first round of system deployments to the field. We have also launched the implementation phase of the Procurement System Improvement Project (PSIP), which brings to USAID a single, Agency-wide application to handle acquisition, assistance, and financial accounting needs. For the second year in a row, independent auditors have given our financial statements an unqualified ("clean") opinion. We have made every effort to verify the accuracy and ensure the completeness of the financial and performance data presented in this report. In the few instances where information has not been provided, we give specific reasons why.

Despite financial management improvements to date, USAID is still not substantially compliant with the Federal Financial Management Improvement Act (FFMIA) of 1996. The primary deficiency is that USAID's Mission Accounting and Control System (MACS), a feeder system to the core financial system, Phoenix, does not support a general ledger. Substantial compliance with the FFMIA will be achieved when Phoenix is fully deployed to the field by April 2006.

In summary, as of September 30, 2004, the management accountability and control systems of the U.S. Agency for International Development provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved, with the exception of the material weaknesses and the material nonconformance of the financial management system noted within this report. This statement is based on the results of an Agency-wide management control assessment and input from senior officials. In addition, I hereby certify that the financial and performance data in the FY 2004 PAR are reliable and complete. A detailed discussion of the material inadequacies and actions that USAID is taking to resolve them is provided in this report.

Finally, this *Performance and Accountability Report* contains the Agency's performance information as required by the Government Performance and Results Act; our audited consolidated financial statements, as required by the Chief Financial Officers Act and the Government Management Reform Act; a report on management decisions and actions in response to audit reports issued by the Agency's Inspector General, as required by the Inspector General Act; and a report on our material weaknesses, as required by the Federal Managers' Financial Integrity Act.

Andrew S. Natsios
Administrator
U.S. Agency for International Development

November 15, 2004

A Message from the Chief Financial Officer

I am pleased to report that, for the second year in a row, USAID received an unqualified or "clean" opinion from our Inspector General (IG) on all five of the Agency's principal financial statements. In addition, we have met accelerated financial and performance reporting deadlines. With these accomplishments, the American people can have confidence that the financial and performance information presented here is timely, accurate, and reliable. At the same time, we achieved a number of other key goals:

◆ As part of USAID's commitment to implement a unified, integrated financial management system that substantially complies with system requirements under the Federal Financial Management Improvement Act (FFMIA), we successfully implemented Phoenix, the new financial management system, in five overseas missions – Egypt, Ghana, Peru, Colombia, and Nigeria – on August 10, 2004. This project has stayed within budget and has rolled out with "few hitches." The Agency plans to deploy Phoenix to other field missions throughout the world by the end of April, 2006.

◆ The Agency continues to make progress in implementing the Government Performance and Results Act (GPRA). We continue to evaluate and improve our performance indicators, targets, and reporting system. We are in the midst of introducing reforms that will more directly link budgeting to specific operational goals.

◆ With respect to the President's Management Agenda (PMA), USAID has maintained a "green" progress score on the scorecard for Improving Financial Management. To get to a "green" status score, USAID needs to have systems and processes institutionalized that will provide accurate and timely data that can be used by managers to answer critical business and management questions. In addition to the continued rollout of the Phoenix system, approximately 20 new and enhanced reports have been developed and deployed to provide users with complete, accurate, and timely financial information needed for decision-making purposes.

While we are pleased with our accomplishments in FY 2004, we will continue to improve all aspects of performance and strive to maintain higher financial management standards in FY 2005. We will also continue to promote effective management controls and focus on implementation of the President's Management Agenda and other financial management initiatives. As CFO, I remain committed to continuing to improve the quality of USAID's financial management systems by deploying an integrated accounting system to our overseas missions. I am confident that we will resolve any impediments that could affect the IG's ability to issue an unqualified audit opinion next year, and we will continue to meet accelerated financial reporting deadlines.

Lisa D. Fiely
Chief Financial Officer

November 15, 2004

About This Report

PURPOSE OF REPORT

The U.S. Agency for International Development's (USAID) Performance and Accountability Report (PAR) for fiscal year (FY) 2004 provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Agency relative to its mission and stewardship of the resources entrusted to it.

FY 2004 USAID PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

◆ For the second year in a row, the Agency received an unqualified ("clean") audit opinion from our independent auditors, attesting to our exemplary stewardship of the public funds entrusted to us.

◆ FY 2004 is the first year in which our PAR is structured around a streamlined and cohesive set of Strategic Objectives, Strategic Goals, and Performance Goals that were established jointly between the Department of State and USAID in the Joint State-USAID Strategic Plan for FY 2004 – 2009.

◆ For the first time, the Agency is presenting provisional or preliminary performance results information for the fiscal reporting year just ended (FY 2004), rather than prior year results data as we have been forced to do in the past, due to the data lag associated with our Annual Report performance management system prepared by each of our operating units. This information has been collected from and vetted by our Regional, Pillar, and Functional Bureaus.

◆ Also for the first time, USAID will supplement the preliminary FY 2004 performance results information contained in this report with a FY 2004 USAID PAR Addendum (Addendum), which will be available in March 2005. The Addendum will contain all final, verified, and validated performance results against our Goals, Indicators, and Targets for FY 2004, and will be made available in hard-copy format and electronically. For more information on the Addendum, please contact USAID's Office of Strategic and Performance Planning at (202) 712-0285.
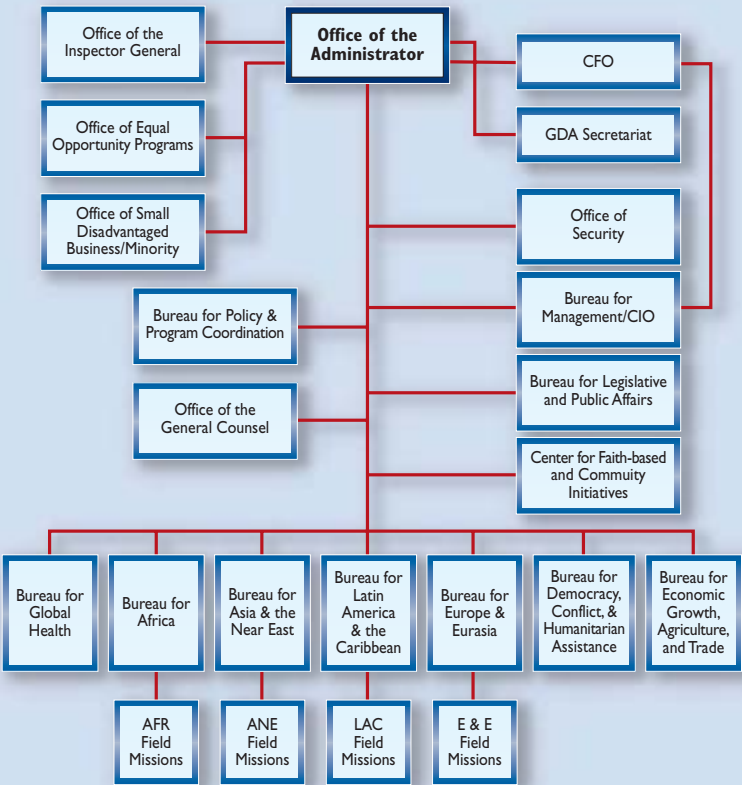
OUR ORGANIZATION

ORGANIZATIONAL STRUCTURE IN WASHINGTON, D.C.

At its headquarters in Washington, D.C., USAID's mission is carried out through four regional bureaus (Africa, Asia and the Near East, Latin America and the Caribbean, and Europe and Eurasia). The regional bureaus are supported by technical (or pillar) bureaus that provide expertise in democracy promotion, governance issues, humanitarian assistance, economic growth, agriculture, and health; and management bureaus which provide policy guidance, program management, and administrative support. Another entity, the Global Development Alliance, operates across the four regional bureaus to support the development of public/private alliances. USAID also includes five offices that support the Agency's security, business, compliance, and diversity initiatives. It also maintains a Center for Faith-Based and Community Initiatives.

USAID ORGANIZATION CHART

ORGANIZATIONAL STRUCTURE AT MISSIONS AND OTHER LOCATIONS

Through its four regional bureaus, USAID maintains field missions in more than 70 countries and programs in more than 150 countries. Most missions are country specific, but several are centers for regional activities. Missions range in size from large missions of up to 40 American Direct Hires, through mid-sized missions of four to seven, to small missions of one to three. Large missions are stand-alone entities providing most services; medium missions provide core program, administrative, and technical services; and small missions mainly provide only program management services. To assist with donor coordination, USAID has representatives located in Brussels, Paris, Tokyo, Rome, and Geneva.

Ten Major Achievements – Business Transformation
FY 2001 – FY 2004

1. **In FY 2003, received first ever clean audit opinion on Agency financial statements** that demonstrates transparent and accountable financial practices. In FY 2004, USAID received its second consecutive clean audit opinion on all five of its Principal Financial Statements.
2. **Achieved over 25% improvement in employee satisfaction with administrative services** as a result of management reforms.
3. **Launched comprehensive human capital strategy and Development Readiness Initiative** to identify and close critical skill gaps, revitalize the workforce and enhance Agency performance.
4. **Deploying a new financial management system and new procurement software overseas** to enhance decision-making and enable fast and accountable transactions.
5. **Allocated funds to countries with the most need and the highest commitment** through strategic budgeting. Re-allocated $30 million to higher performing, higher need programs after an internal program performance assessment.
6. **Saving over $5 million in taxpayers funds** through joint licensing agreements as a result of the Joint Financial Management System collaboration with State Department.
7. **Enhancing knowledge management systems and methods** to capture and share development expertise and new ideas.
8. **Saved $836,000 in taxpayer funds through on-line training,** enabling Agency employees to complete nearly 2,000 Web-based courses to enhance job performance. Trained nearly 1,000 employees on Executive and Senior Leadership to enhance career development opportunities.
9. **Better aligning staff with foreign policy priorities** with a new overseas staffing template – 21 positions moving to Asia and Near East programs.
10. **Streamlined and automated the Agency's recruitment process** reducing the hiring cycle from 229 days to less than 45 days from job announcement to employee selection.

Ten Major Achievements – Afghanistan Reborn with International Help

1. **10 million Afghans registered to vote**
Despite the threat, most Afghans are registered to vote in the upcoming elections. More than 40% are women.
2. **Five million children vaccinated**
Rehabilitated 72 clinics and hospitals.
3. **School enrollment explodes**
Enrollment rises from 900,000 to 5 million, as girls attend classes for the first time in a decade.
4. **Reconstruction accelerates**
More than $8 billion in international aid pledged. Kabul-Kandahar road completed, linking the country's two biggest cities.
5. **3.7 million refugees return**
After years in Pakistani and Iranian camps, 100,000 Afghan refugees return each month, the largest voluntary return in modern history.
6. **Private construction booming**
Markets, homes, and mosques rise next to rubble from past conflict. For the first time in years, Kabul enjoys a building boom.
7. **New Afghan currency introduced**
The new Afghani, along with economic and financial reforms, is creating confidence as businesses invest and expand.
8. **Agriculture output nearly doubled**
In 2002, new seed varieties, fertilizer, and restored irrigation systems helped farmers raise output 80%.
9. **Afghan National Army and National Police created**
Some 14,000 ANA troops and 25,000 police have been trained and deployed around country.
10. **Regional militias disarming**
Thousands of fighters who fought the Soviets and the Taliban are giving up their weapons and getting training for civilian jobs.

Ten Major Achievements – USAID in Iraq

1. **Prevented humanitarian emergency**
Delivered 575,000 metric tons of wheat, reforming public distribution system.
2. **Created local and city governments**
at more than 600 communities.
3. **Restarted schools**
Fixed 2,500 schools; textbooks to 8.7 million students, supplies to 3.3 million; trained 33,000 teachers.
4. **Vaccinated 3 million children**
Equipping 600 primary care health clinics and rehabilitated more than 60 others.
5. **Providing safe water**
Expanding Baghdad water purification plant and rehabilitating 27 water and sewage plants.
6. **Re-opened deep water port**
Dredged Umm Qasr; repaired equipment. Today it handles 140,000 tons of cargo a month.
7. **Restoring electric service**
Repaired eight major power plants with CPA, adding 2,100 megawatts by summer 2004.
8. **Helped CPA launch new currency**
and re-establish Central Bank.
9. **Reviving the Marshlands**
Reflooding revives ancient way of life.
10. **Established Good Governance**
Budgeting, accounting systems add transparency, accountability to ministries.

USAID'S PEOPLE

USAID's workforce consists of more than 8,100 employees in the Foreign Service and Civil Service, those serving as Foreign Service Nationals and those in other employee categories, including employees detailed from other U.S. government agencies, personal service contractors, and fellows. As the table indicates, Foreign Service Nationals make up 61 percent of USAID's workforce, and 77 percent of the total workforce serving overseas.

Workforce Composition:
Full-time Employees
as of September 30, 2004

924
Others
11%

1,132
Civil Service
(USCS)
14%

1,095
Foreign
Service
14%

4,966
Foreign
Service
National
61%
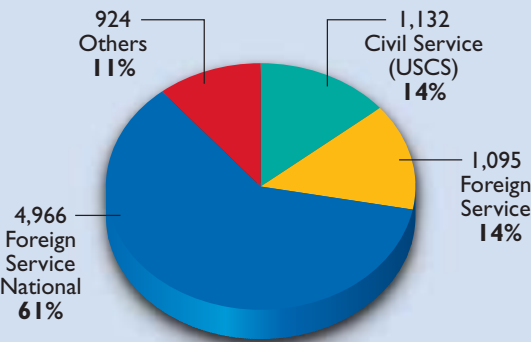
Total Full-time Employees: 8,117

Workforce Location:
Full-time Employees
as of September 30, 2004

1,867
Washington
23%

6,250
Overseas
77%
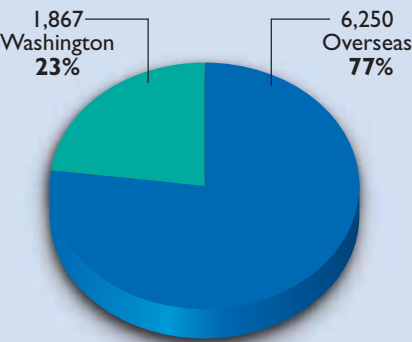
Total Full-time Employees: 8,117

Summary of Full-time Permanent Employees

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Total	7,468	7,249	7,313	7,474	7,756	7,875	7,943	8,117
Others	772	812	879	930	1,056	965	896	924
Civil Service	4,271	4,091	4,223	4,420	4,578	4,749	4,873	4,966
Foreign Service National	1,181	1,128	1,084	1,081	1,085	1,082	1,079	1,095
Foreign Service	1,244	1,218	1,127	1,043	1,037	1,079	1,095	1,132

Number of Employees

Legend: Civil Service — Foreign Service — Foreign Service National — Others

USAID Locations

Legend:

- ★ USAID Bilateral Programs with U.S. Direct Hire Presence
- ■ USAID Regional Platforms with U.S. Direct Hire Presence
- ● USAID Programs with No U.S. Direct Hire Presence
- ▲ Non-presence Countries with USAID Funding Over $1 Million (significant management oversight often required)
- ⬡ USAID One-person Posts

"Non-presence" is defined as a project with no USAID full-time hires in country

See Inset Map

See Inset Map

Performance Summary and Highlights

> "WE HAVE COMMON DUTIES: TO PROTECT OUR PEOPLES, TO CONFRONT DISEASE AND HUNGER AND POVERTY IN TROUBLED REGIONS OF THE WORLD...TO PROMOTE DEVELOPMENT AND PROGRESS...
>
> ACROSS THE EARTH, AMERICA IS FEEDING THE HUNGRY. MORE THAN 60 PERCENT OF INTERNATIONAL EMERGENCY FOOD AID COMES AS A GIFT OF THE PEOPLE OF THE UNITED STATES.... MILLIONS ARE FACING GREAT AFFLICTION, BUT WITH OUR HELP, THEY WILL NOT FACE IT ALONE. AMERICA HAS A SPECIAL CALLING TO COME TO THEIR AID AND WE WILL DO SO WITH THE COMPASSION AND GENEROSITY THAT HAVE ALWAYS DEFINED THE UNITED STATES."
>
> *– President George W. Bush*

USAID finds itself at a most critical time in the history of international development and foreign assistance. September 11, 2001, served to accelerate awareness that development is an essential element of national security. Widespread and persistent world poverty, the growing menace of global terrorism and transnational crime, the integration of global communications and markets, and the surge of HIV/AIDS and other infectious diseases heighten the priority for international development. Weak and failed states, poverty, and complex emergencies now occupy center stage among the nation's foreign policy and national security issues.

With its roots in the Marshall Plan, USAID is uniquely placed on the front lines of the U.S. government's presence around the world. The programs of USAID in economic growth, democracy, agriculture, health, and education make a difference to the world's poor and to U.S. national security. USAID programs in over 150 countries, including Iraq, Afghanistan and Sudan, help bring democracy and free markets to strategic areas of the world, while simultaneously demonstrating the compassion and generosity of the American people. USAID programs present a win-win situation for the United States, providing strong examples of the use of "soft power" while assisting many nations in meeting their own development needs and priorities.

In September 2002, President Bush unveiled his National Security Strategy to address the unprecedented challenges facing the nation. It outlined the new direction in foreign policy that is required to respond effectively to what occurred the previous September. Among the tools to be engaged in the new strategy is an emphasis on "development." This new role requires USAID to acknowledge that its mission is now broader than the traditional humanitarian and development response. The Agency is increasingly challenged to address the crisis of failed states, transnational problems, and geo-strategic issues.

In both Iraq and Afghanistan, USAID has stood on the front lines of the most important battles in the new war. The outside world has little understanding of the devastation—physical and psychological—that these societies suffered from decades of predatory and tyrannical governments and political fanaticism. USAID initiatives are helping the people of Iraq and Afghanistan reclaim their societies and together are laying the groundwork for their countries' rebirth.

The reconstruction efforts in Iraq are critical, and remain a central priority of the Agency. The achievements are significant, especially in light of the security situation and the desperate and ongoing efforts of some to disrupt the progress. USAID is committed to the President's goal of seeing democratic governments come to Afghanistan and Iraq. It is a historic commitment that is rivaled only by the Marshall Plan, to which the Agency traces its origins.

"We've had an incredible increase in foreign assistance, and that's extremely important. We're going to continue to see that development assistance is one of our three Ds: diplomacy, development, and defense

-Condoleeza Rice
National Security Advisor

Conflict and failed states provide opportunistic environments in which terrorists can operate. Regimes that are closed politically and economically foment a sense of hopelessness and multiply the numbers of aggrieved who become easy recruits to the terrorist cause. USAID's mission is to shore up the democratic forces of society and to foster the economic reforms that are the most effective antidote to the terrorist threat and appeal. The President, the Department of State, and others understand that this is not going to happen overnight and that USAID's contributions are necessary but not sufficient alone, a fact clearly pointed out in the President's National Strategy for Combating Terrorism. The war on terror will be a

long one, as the President reminds us, and it will take both resolve and long-term commitment.

USAID's rising profile in our foreign policy initiatives can be measured in budgetary terms. The commitment to the Agency has been substantial and growing as we administer funds from a number of Foreign Affairs accounts. In FY 2004, for example, the Agency administered nearly $14.2 billion portfolio (including supplemental funds for Iraq), which is up from $7.8 billion in FY 2001. The Agency is proud of this vote of confidence and anxious to make good on our daunting responsibilities.

PERFORMANCE MANAGEMENT –
A LEADERSHIP PRIORITY

USAID uses strategic management processes to ensure that its program planning, management, and reporting capabilities:

◆ effectively support U.S. foreign policy

◆ are able to respond quickly to today's rapidly evolving global environment

◆ achieve and report on desired results.
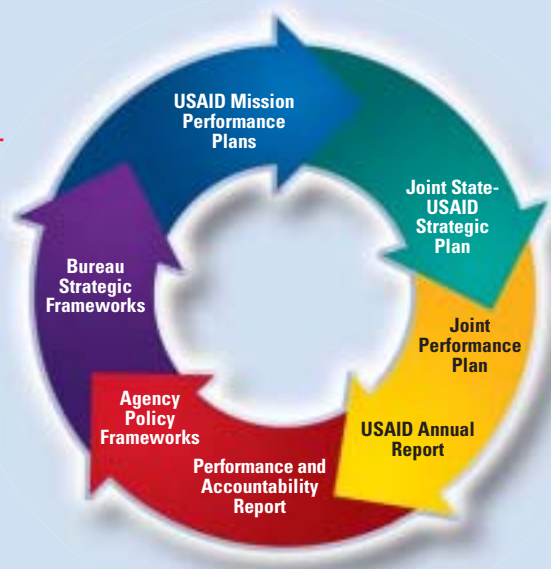
USAID and the State Department issued an historic Joint State-USAID Strategic Plan for FY 2004-2009. This Joint State-USAID Strategic Plan utilizes a strategic goal framework that captures and articulates the agencies' highest priority goals and objectives focusing on policy, program, and management direction. Complementing the Joint Plan's framework, USAID is developing an Agency Policy Framework directed at "operationalizing" the Joint State-USAID Strategic Plan and the many policy and strategic directives guiding Agency program operations. USAID's performance management planning processes are driven by senior leadership direction and coordination as described below:

USAID PERFORMANCE MANAGEMENT PLANNING PROCESS	
The Planning Process	**USAID**
Step #1 **Agency Plans**	Using the planning and performance information contained in the Bureau Program and Budget Submission (BPBS), together with other related information available at the national and international levels, USAID and the Department of State develop a coordinated Joint Performance Budget (Plan). This budget focuses on the highest priority issues facing both agencies, and is consistent with the Joint State-USAID Strategic Plan.
Step #2 **Bureau Plans**	After the Annual Report process is completed, each of USAID's regional and functional bureaus prepares a Bureau Program and Budget Submission (BPBS) laying out goals, targets, and resource requirements for the coming year. The BPBS documents are forwarded upward for review by Agency Assistant Administrators.
Step #3 **Mission Plans**	Each of USAID's missions prepares a Strategic Plan identifying key objectives, performance targets, and resource requirements. Every year an Annual Report recaps the progress made by the missions and outlines resource requirements for the year ahead. Information from the Annual Report feeds into an overall Mission Performance Plan (MPP), which takes into account both USAID and Department of State activities. These plans are forwarded upward for review by USAID bureaus, including the Bureau for Policy and Program Coordination. The final performance results and validation/verification information contained in the Annual Report will be the basis for final performance reporting the PAR addendum, scheduled for publication in March of each calendar year.

The Agency strategic planning document can be found online at the following link:

◆ *FY 2004-2009 State/USAID Strategic Plan: http://www.state.gov/m/rm/rls/dosstrat/2004/*

◆ The Agency's Annual Performance Plan (APP) for FY 2004 was withdrawn, since it was rendered obsolete by the Joint State-USAID Strategic Plan, and is therefore not available electronically. However, reader's wishing to obtain the most recent performance planning information will be able to obtain it electronically in the FY 2006 Joint Performance Plan, which is scheduled for submission to Congress with the President's Budget on February 7, 2005. The electronic link to the final FY 2006 JPP will be published in the March 2005 PAR Addendum.

How We Manage and Measure Performance

OUR CURRENT SYSTEM AND OUR PLANS FOR THE FUTURE

USAID must set targets and measure results at various levels including Agency, bureau, and country/mission, and in varying country contexts ranging from failed states to those that are near graduation. The Joint State-USAID Strategic Plan presents the overarching construct for managing and measuring all Agency performance. However, the foundation and critical input for any USAID performance system is the country mission and operating level, and the Agency has not always been totally successful in realistically setting targets and then gathering operating level results in a form compatible with Agency reporting needs.

To correct this, USAID is in the midst of introducing a set of far-reaching strategic management reforms intended 1) to more closely link foreign aid programs with the goals and objectives of the Joint State-USAID Strategic Plan, 2) to improve the effectiveness of the assistance that USAID manages, 3) to be more precise and realistic in establishing foreign aid rationale and expected outcomes in particular situations, and overall 4) to improve the measurement and reporting of results at all organizational levels. The reforms:

◆ Introduce two new planning instruments: First, an Agency Policy Framework which will aggregate the major policies and strategies affecting Agency operations, including the Joint State-USAID Plan, the five core Operational Goals, and the host of targeted sector and issues-driven guidance. Second, Bureau Strategic Frameworks which, building on the Agency Policy Framework, will establish bureau program priorities, and major objectives and targets for the bureau and the countries with these bureaus. Both levels will provide an improved and transparent structure for planning and reporting on performance at the country mission, bureau, and the Agency levels.

◆ Further, the reforms will tackle the perennial problem of gathering performance information at the operating level, aggregating it, and reporting for the Agency. This has been particularly challenging given the reality of a very diverse program mix in countries of widely varying need, capability, commitment, and foreign policy priority. In FY 2005, USAID will develop (40) standard Agency Program Components with common indicators that will link its field programs directly to Agency performance goals and objectives in the Joint State-USAID Strategic Plan. The components represent virtually everything USAID does, from Increased Agricultural Productivity to Reducing the Impact of HIV/AIDS to Addressing Conflict Transitional Issues. These components can be visualized as a "bridge" between mission, or operating level performance, and Agency performance.

JOINT STATE-USAID STRATEGIC PLAN FRAMEWORK

U.S. Department of State – USAID Mission

Create a More Secure, Democratic, and Prosperous World for the Benefit of the American People and the International Community

Core Values: Loyalty, Character, Service, Accountability, Community

Achieve Peace and Security	Advance Sustainable Development and Global Interests	Promote International Understanding	Strengthen Diplomatic and Program Capabilities
Regional Stability	Democracy and Human Rights	Public Diplomacy and Public Affairs	Management and Organizational Excellence
Counterterrorism	Economic Prosperity and Security		
Homeland Security	Social and Environmental Issues		
Weapons of Mass Destruction	Humanitarian Response		
International Crime and Drugs			
American Citizens			

Legend

- Strategic Objectives
- Department of State Goal
- USAID Goal
- State-USAID Goal

As a result of the Joint State-Aid Strategic Plan, USAID now focuses its work around eight strategic goals that capture the breadth of its bureau, mission, and specific responsibilities. The adoption of these new Strategic Goals has helped to streamline the Agency's reporting structure and is being integrated into strategic management reforms discussed previously. The eight strategic goals are centered on three core Strategic Objectives from the Joint State-USAID Strategic Plan:

◆ Achieve Peace and Security

◆ Advance Sustainable Development and Global Interests

◆ Strengthen Diplomatic and Program Capabilities

STRATEGIC PLANNING FRAMEWORK

USAID Changed Its Strategic Goals in FY 2004

2000 Strategic Plan

1. Broad-based Economic Growth and Agricultural Development Encouraged
2. Human Capacity Built Through Education and Training
3. Global Environment Protected
4. World Population Stabilized and Human Health Protected
5. Democracy and Good Governance Strengthened
6. Lives Saved, Suffering Associated with Natural or Man-made Disasters Reduced, and Conditions Necessary for Political and/or Economic Development Reestablished
7. Management Goal – USAID's Development Goals Achieved in the Most Efficient and Effective Manner

**FY 2004-2009 Joint USAID/
State Department Strategic Plan**

1. Regional Stability
2. Counterterrorism
3. International Crime and Drugs
4. Democracy and Human Rights
5. Economic Prosperity and Security
6. Social and Environmental Issues
7. Humanitarian Response
8. Management and Organizational Excellence

AGENCY STRATEGIC OBJECTIVES AND STRATEGIC GOALS

STRATEGIC OBJECTIVE #1 - Achieve Peace and Security -	
Strategic Goal Title	**Strategic Goal Description**
Regional Stability	Avert and resolve local and regional conflicts to preserve peace and minimize harm to the national interests of the United States.
Counterterrorism	Prevent attacks against the United States, its allies, and its friends, and strengthen alliances and international arrangements to defeat global terrorism.
International Crime and Drugs	Minimize the impact of international crime and illegal drugs on the United States and its citizens.

STRATEGIC OBJECTIVE #2 - Advance Sustainable Development and Global Interests -	
Strategic Goal Title	**Strategic Goal Description**
Democracy and Human Rights	Advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, and religious freedom.
Economic Prosperity and Security	Strengthen world economic growth, development, and stability, while expanding opportunities for U.S. businesses and ensuring economic security for the nation.
Social and Environmental Issues	Improve health, education, environment, and other conditions for the global population.
Humanitarian Response	Minimize the human costs of displacement, conflicts, and natural disasters.

STRATEGIC OBJECTIVE #3 - Strengthen Diplomatic and Program Capabilities -	
Strategic Goal Title	**Strategic Goal Description**
Management and Organizational Excellence	Ensure a high quality workforce supported by modern and secure infrastructure and operational capabilities.

HOW WE ASSESS PERFORMANCE

Six-Tiered Methodology

The Agency is committed to utilizing the funds it receives from taxpayers through Congress to produce successful results. To assess performance, the Agency currently employs a performance management methodology depicted in the pyramid at right. Each of the six components of the pyramid is defined below.

Six-Tiered Methodology

Strategic Objectives	High level, broad categories of action through which the Agency will achieve its strategies and performance goals.
Strategic Goals	The Agency's long-term goals as detailed in the Joint State-USAID Strategic Plan.
Performance Goals	The desired outcomes the Agency is planning to achieve in order to attain its strategic goals. The Agency has 16 performance goals.
Program Goals	Specific functional and/or policy areas, including programs as defined by the OMB Program PART, to which the Agency devotes significant attention.
Performance Indicators	Values or characteristics that the Agency utilizes to measure progress achieved towards stated annual performance goals. The indicators are drawn from bureau and mission performance plans.
Performance Targets	Expressions of desired performance levels or specific desired results targeted for a given fiscal year. Achievement of targets defines success. Where possible, targets are expressed in quantifiable terms.

STRATEGIC PLANNING FRAMEWORK

Strategic Objectives and Strategic Goals that USAID reports against

Of the four strategic objectives and 12 strategic goals contained in the Joint State-USAID Strategic Plan, USAID reports against the following three strategic objectives and eight strategic goals. USAID does not have programs in the remaining four strategic goal areas, or does not have meaningful indicators or targets which require reporting of performance results in the PAR (for example in the area of Public Affairs).

STRATEGIC OBJECTIVE #1: ACHIEVE PEACE AND SECURITY

Strategic Goals to Meet this Objective:

SG #1   Regional Stability

SG #2   Counterterrorism

SG #3   International Crime and Drugs

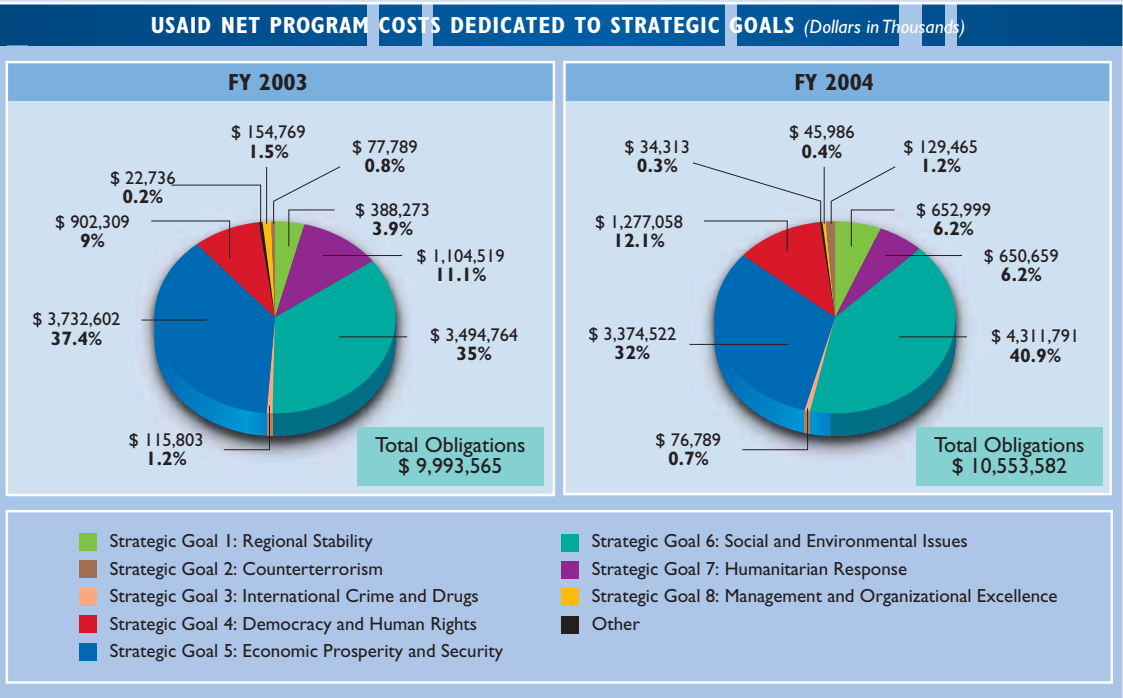**STRATEGIC OBJECTIVE #2: ADVANCE SUSTAINABLE DEVELOPMENT AND GLOBAL INTERESTS**

Strategic Goals to Meet this Objective:

SG #4   Democracy and Human Rights

SG #5   Economic Prosperity and Security

SG #6   Social and Environmental Issues

SG #7   Humanitarian Response

STRATEGIC OBJECTIVE #3: STRENGTHEN DIPLOMATIC AND PROGRAM CAPABILITIES

Strategic Goal to Meet this Objective:

SG #8   Management and Organizational Excellence

USAID NET PROGRAM COSTS DEDICATED TO STRATEGIC GOALS *(Dollars in Thousands)*

FY 2003

$ 154,769 **1.5%**
$ 77,789 **0.8%**
$ 22,736 **0.2%**
$ 902,309 **9%**
$ 388,273 **3.9%**
$ 3,732,602 **37.4%**
$ 1,104,519 **11.1%**
$ 3,494,764 **35%**
$ 115,803 **1.2%**

Total Obligations
$ 9,993,565

FY 2004

$ 34,313 **0.3%**
$ 45,986 **0.4%**
$ 129,465 **1.2%**
$ 1,277,058 **12.1%**
$ 652,999 **6.2%**
$ 650,659 **6.2%**
$ 3,374,522 **32%**
$ 4,311,791 **40.9%**
$ 76,789 **0.7%**

Total Obligations
$ 10,553,582

■ Strategic Goal 1: Regional Stability
■ Strategic Goal 2: Counterterrorism
■ Strategic Goal 3: International Crime and Drugs
■ Strategic Goal 4: Democracy and Human Rights
■ Strategic Goal 5: Economic Prosperity and Security
■ Strategic Goal 6: Social and Environmental Issues
■ Strategic Goal 7: Humanitarian Response
■ Strategic Goal 8: Management and Organizational Excellence
■ Other

Please refer to the individual strategic Goal chapters in the performance results section for a breakdown on net program cost for each performance goal.

OUR PERFORMANCE RATING SYSTEM

To assess performance results against established targets, the Agency applies a results rating methodology, which has been applied consistently to USAID's results for FY 2003 and FY 2004. Program managers use this methodology to assign one of three performance ratings for a given result. Based on a combination of the established parameters shown in the table on previous page, managers assign a performance rating that reflects the extent to which a given target was achieved.

This methodology represents an important step toward using a standard tool to evaluate the Agency's work. However, to correctly interpret the numerical analysis of the report, it is important to note the following:

DATA LAGS: The Agency could not report on a large percentage of its FY 2004 performance results by the November 15th PAR deadline. In the majority of cases this was due to lagging, calendar year-based data, collected through USAID's Annual Report database process (which is not available until after mid-December each calendar year), and is therefore reported as a "Data Lag." In cases where data estimation techniques could be applied to certain Indicators and Targets, those performance results are included, but are identified as "Provisional or Preliminary." *The Agency plans to publish an Addendum to the FY 2004 PAR, in March 2005, which will provide final, validated performance results information that will be generated on the basis of the Annual Report database, the Agency's traditional data collection and analysis tool that generates performance data in the December timeframe each year.* Each Strategic Goal chapter in the Performance Results section includes a table that identifies the number of Preliminary Results and data lags associated with that particular Strategic Goal.

SUMMARY OF FY 2004 PRELIMINARY PERFORMANCE RESULTS

SUMMARY OF ALL RESULTS

SUMMARY OF FY 2004 PRELIMINARY PERFORMANCE RESULTS

Data Lag 31.5%
Exceeds Target 13.7%
On Target 45.3%
Below Target 9.5%

Performance Rating	Number of Results
Exceeds Target	10
On Target	33
Below Target	7
Data Lag	23
Total Number of Results	73
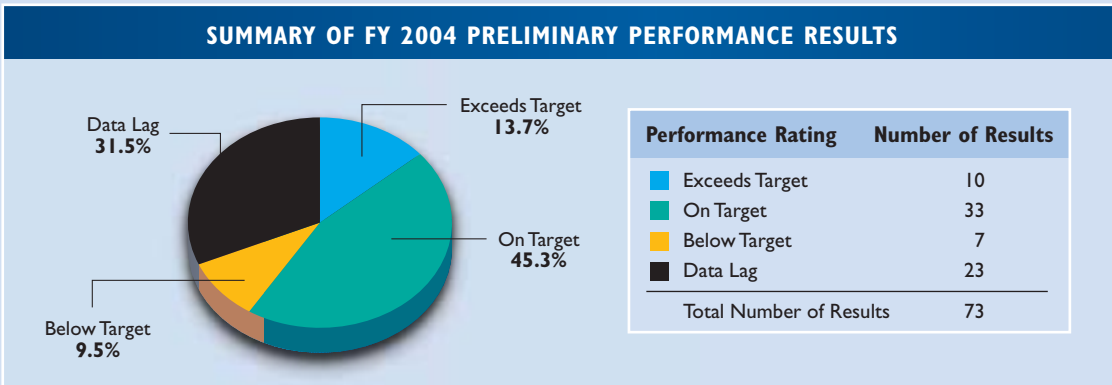
Most Important Results and Continuing Challenges

During FY 2004, USAID responded on numerous levels to the many challenges the nations of the world are facing, consistent with the Agency's mission and strategic objectives. Highlights of the most important results and continuing challenges are shown below, arrayed by USAID's eight Strategic Goals:

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
REGIONAL STABILITY	
Results	**Challenges**
Working in close cooperation with the Iraq interim government to improve the lives of Iraqis, USAID is devoting substantial resources throughout the country to restore critical infrastructure, support the delivery of healthcare and education services, expand economic opportunities, and improve governance. The USAID activity in support of the Iraqi people has been massive. Below is a short summary of the kinds of help provided: ◆ Restored electricity generation capacity, by October 6, 2003, to surpass the pre-war daily levels of 4,400 megawatts. ◆ Implemented water and sanitation projects worth $183 million that will benefit 14.5 million people. ◆ Vaccinated over 3 million children through monthly national immunization days. ◆ Equipped 600 facilities in seven target governorates to provide essential primary healthcare services. ◆ Renovated 2,356 schools nationwide and provided the necessary furnishings, books, and educational supplies to assure that the school year resumed as scheduled on October 3, 2004, despite the disruptions of the war. ◆ Implemented 17 high-priority activities to reform Iraq's currency, state-owned enterprises, small businesses, banking system, taxation system, budgeting, and utility administration. ◆ Facilitated the Central Bank program to introduce a new Iraqi currency. 4.62 trillion new Iraqi dinars were placed in circulation (worth approximately $3.2 billion). ◆ Created more than 77,000 public works jobs through the National Employment Program. ◆ Established a total of 678 representative councils at every level (governorate, district, sub-district, municipality, and neighborhood), allowing more than 19 million people to engage in local policy discourse and be represented in decision processes. ◆ Iraq: The Local Governance Program awarded 148 grants to local government agencies totaling $11.5 million to restore basic services and has established the Iraqi Women in Local Governance Group in response to the challenge of women's gross under-representation in political processes across Iraq.	◆ Strengthening the management skills and capacity of local administrations, local interim representative bodies, and civic institutions to improve the delivery of essential municipal services, such as water, health, public sanitation, and economic development in Iraq. ◆ Factionalism, ongoing violence, and lingering pockets of terrorism continue to threaten the viability and stability of Afghanistan's central government and make it difficult to cement democratic institutions. ◆ In many countries where USAID works, violence and instability continue to hamper USAID's efforts to catalyze democratic transformations and remove sources of conflict.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
REGIONAL STABILITY	
Results	**Challenges**
◆ After a violence-free Constitutional Loya Jira, Afghanistan adopted a constitution that effectively incorporated both Islamic traditions and democratic principles. Subsequent voter registration for the country's recent historic election was very successful, with over 10 million voters registered, approximately 40 percent of whom were women. ◆ On both sides of the Kenya/Somali border, pastoral groups have always resorted to violence to resolve water disputes, one of the root causes of conflict in this volatile region. During the past three years, USAID has funded a pact to work with the Wajir South Development Association (WASDA) to reduce conflict by improving water sources and establishing peace committees that monitor the level of tension in communities and harmonize the needs of neighborhoods. As a result, communities in the region are experiencing peace for the first time, food security has improved, and small businesses are flourishing. ◆ Through targeted efforts to encourage economic development in conflict-affected areas of the Philippines, USAID is helping foster reintegration of more than 21,000 former Moro National Liberation Front combatants into the peaceful economy. USAID's efforts to reintegrate the former combatants have been so successful that they are serving as a model for U.S. relations with Islamic communities worldwide.	
COUNTERTERRORISM	
Results	**Challenges**
◆ In Afghanistan, seven judicial facilities were built or rehabilitated (estimate) and 443 judicial experts were trained (estimate) in order to strengthen the legal system as a counterterrorism measure.	◆ The two goals of countering terrorism and expanding Muslim outreach to support moderates create a real dilemma for the U.S. government. Security requirements restrict exchanges and limit the NGOs with whom USAID can work, in effect limiting the Agency's outreach. Survey data show that negative views of the U.S. pervasive throughout the Muslim world are due to U.S. policies as well as perceived maltreatment of Muslims in the U.S. ◆ The ability of USAID and USAID front-line staff to effectively develop, oversee, and monitor projects is severely hampered by the security situation in the crisis areas where the Agency operates. ◆ Regional pockets continue to harbor terrorists and radicals who pose a significant risk to those countries, as well as to the United States.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

INTERNATIONAL CRIME AND DRUGS

Results	Challenges
◆ USAID is working with the governments of Bolivia, Colombia, and Peru to eradicate coca and opium poppy by providing licit income alternatives and strengthening communities.	◆ Despite bold efforts by Colombia, Bolivia, and Peru to combat narcotrafficking, the lack of state presence in some areas has allowed illegal narcotics production and armed terrorist organization to continue to flourish.
◆ With the efforts of USAID and the government of Bolivia over the last 10 years, the area committed to coca has dropped by over 85 percent, from about 35,000 hectares to 4,500 hectares, and the area committed to legal crops has expanded to more than 135,000 hectares. USAID programs have introduced new crops and agricultural research, stronger market linkages and producer groups, a vast network of all-weather cobblestone farm-to-market roads, electrification, investment promotion, and environmental mitigation.	◆ Drug related spillover criminal activity brings threats of violence and instability to communities along Ecuador's northern border with Colombia.
	◆ Afghanistan is the source of three-quarters of the world's opium. Persistent poverty, high opium prices, and loans from traffickers were all reasons for high opium production in 2004. Farmers are aware of the government ban on opium production, but the short-term benefits of the activity outweigh the potential risks from law enforcement measures.
◆ A U.S. government interagency action plan is in place to provide Afghanistan's farmers with alternative on- and off-farm sources of livelihood to push back poppy production and develop an economy that can participate fully in the global marketplace.	

DEMOCRACY AND HUMAN RIGHTS

Results	Challenges
◆ There was continued progress in Eastern Europe and Eurasia in building democratic institutions, movement towards political integration with Europe in a number of countries, especially Croatia and Bulgaria, and the ability to repeatedly hold elections that are at, or near, European Organization for Security and Cooperation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR) standards. Past efforts in assistance for election administration and oversight are bearing fruit.	◆ Eastern European countries need continued assistance to make their democratic institutions more stable, robust, and mature in preparation for broader political and economic integration with Europe. In both Europe and Eurasia continued efforts are needed to promote a culture of democratic values, while working against ethnic and religious extremism, separatism, and intolerance.
◆ In Latin America, USAID provided technical assistance in Paraguay to help local governments become more responsive, transparent, and accountable, and supported civil society in providing control and oversight of the public sector. In El Salvador, USAID programs have assisted in increasing access to justice in El Salvador by establishing centers that provide free legal advice and mediation services to 4,252 mostly rural people who have limited access to the formal justice system. The Public Defender's Office has decided to replicate and finance this successful initiative on a national scale over the next three years.	◆ Since the fall of Paraguay's dictatorship 14 years ago, challenges to the country's democracy include several coup attempts, the assassination of a vice president, and the resignation of a president. In El Salvador, the declining share of national income for the poor undercuts the significant progress the country has made over the past decade and poses a serious threat to an emerging democracy.
◆ In Africa, assistance to Sudan paid for governance programs that resulted in more financially viable grassroots organizations, more capable civilian administrations, more participatory political and constitutional development processes, and greater access to quality, independent broadcast and print media in all major southern Sudan languages. In Uganda, USAID work with Parliament has been the basis for firmer separation of powers. A core parliamentary group now has the skills to engage on policy issues, refine draft laws originating in the executive branch, and to initiate bills within the Chamber.	◆ In Sudan, intermittent conflict and related human rights abuses (especially in the western Sudan region of Darfur) and deep ethnic and religious rifts will make reconciliation and a transition to peace difficult. Uganda's progress toward a vigorous and representative multi-party democracy requires permitting political parties to operate freely and constructively, as well as building institutions and systems which can check and correct abuse of authority and corruption.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

DEMOCRACY AND HUMAN RIGHTS *(continued)*

Results	Challenges
◆ USAID provided extensive technical assistance in support of Indonesia's national and local elections. This included election support programs, media development, civil society strengthening, political party development, and a program to support moderate Muslim groups. Free and fair elections were held in September for a new president, house and senate members, and provincial leaders.	

ECONOMIC PROSPERITY AND SECURITY

Results	Challenges
◆ At least 50,000 Iraqis per month are finding work – whether temporary or permanent – through USAID-supported programs. ◆ Most recent data indicate that USAID invested over $183 million in programs supporting micro-enterprises worldwide. These programs supported microfinance programs serving more than seven million borrowers and providing almost $4 billion in loans. USAID programming also supported savings services to 34 million people whose savings totaled $4.5 billion. The Agency achieved these results through supporting 568 institutions worldwide. ◆ The U.S.–Central America Free Trade Agreement (CAFTA) was signed in May 2004. USAID participated in the trade capacity building working group during the negotiations, and now co-chairs the post-negotiations CAFTA Trade Capacity Building Committee. USAID was instrumental in technical assistance and public outreach activities in Central America and the Dominican Republic that resulted in the successful completion of the negotiations and enhanced civil society participation in the process. The efforts of USAID effectively linked aid and trade and laid a foundation which facilitated trade capacity building assistance, helping the countries to maximize the benefits of CAFTA once ratified and effective. About 22,000 people received trade capacity building training under the CAFTA Initiative in policy areas like competition, intellectual property, corruption, and barriers to investment. Such training strengthens their capacity to be strong trading partners. ◆ 41,000 vulnerable small farm families benefited from investments under the Initiative to End Hunger in Africa. This greatly reduces hunger and poverty, enabling families and their communities to improve their standard of living.	◆ Some 52 percent of Iraqis are still unemployed, and many of those with jobs are underemployed, working part-time or for small income. This is a particularly alarming figure, given that some 70 percent of the Iraqi population is under 25 – a large labor pool with need for economic opportunity. ◆ In the ratification of CAFTA, USAID must continue to assist each country and help governments to implement CAFTA requirements such as health and food safety standards, customs, and intellectual property rights. Help countries maximize the benefits of CAFTA, especially by broadening the participation of the rural-based poor and increasing the competitiveness of the small business and agricultural sectors. ◆ High unemployment rates, a ballooning youth population, and graduates without employable skills contribute to growing dissatisfaction and potential instability in many countries. ◆ The shifting of food markets from "markets with public faces" of the parastatal 1960s and 1970s, to "faceless markets" of the liberalized 1980s and 1990s, to "markets with private sector faces" of today have forced producers to develop complex relationships with the private sector or face exclusion from the markets.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

SOCIAL AND ENVIRONMENTAL ISSUES

Results	Challenges
◆ USAID has made many significant contributions to the fight against HIV/AIDS. Sixteen countries in Eastern Europe and Eurasia, for example, have received awards totaling more than $564 million from the Global Fund to Fight AIDS, Tuberculosis, and Malaria, which dramatically increased the resources available to fight those three diseases in the region. USAID assistance was critical to grant application success for many of those countries. Also, as a result of USAID support, the governments of Guatemala, Nicaragua, Honduras, El Salvador, Nicaragua, and Panama have enacted legislation protecting the rights of people living with AIDS. All of the Central American governments have committed to expanding access to full antiretroviral therapy.	◆ The adult HIV/AIDS prevalence rate in the Caribbean is surpassed only by Sub-Saharan Africa. Social patterns of early sexual initiation and multiple partners increase the risk. In Asia and the Near East, eight million people are HIV positive, and each year hundreds of thousands die from HIV/AIDS-related illnesses. This could increase exponentially if the epidemic is allowed to spread from high-risk groups to the general population in countries like India, China, Indonesia, and Thailand.
◆ In FY 2004 USAID committed just over $80 million for malaria programs—a nearly four-fold increase since 1998 when USAID's Infectious Disease Initiative was launched. These new and expanded resources have allowed for a significant scaling up of malaria activities from five countries to 20 now targeting national level impact and leading to increased coverage with interventions, better policies, and visibly stronger programs.	◆ Recent detailed analyses of demographic and health survey data indicate that in some countries the use of Oral Rehydration Therapy (ORT)—developed by USAID and considered one of the oldest and most basic child survival interventions—may be starting to decline. This may be the result of countries having integrated diarrheal disease control programs into larger, less focused, and underfunded health systems in poor countries. In response, USAID is working with the World Health Organization (WHO), United Nations Children's Fund (UNICEF), and other partners to revitalize ORT, using the new improved formulation of oral rehydration solution and newly available zinc treatment as entry points.
◆ In countries such as Benin, Nepal, the Democratic Republic of Congo, Nicaragua, and 23 others, USAID is providing Vitamin A supplementation to promote better nutrition. Vitamin A deficiency can lead to nutritional blindness among children and adults, and death. Of those 27 countries where USAID promotes and provides Vitamin A, 15 now have greater than 50 percent coverage with nutritional supplementation, and the Agency knows that under five mortality decreases by up to 30 percent in these regions with Vitamin A supplementation. That means literally millions of children across the world are surviving due to USAID intervention to provide Vitamin A.	◆ Spurred by growing global demand for timber and paper, illegal and destructive logging remains one of the key threats to the world's oldest forests in Bolivia. Only 17 million hectares, or 0.5 percent of all forests, are under ecologically-sound management as certified by independent international certification bodies. Land degradation also is a serious impediment to maintaining the quantity and quality of water. With 60 percent of the world's population depending upon only one-third of the world's land area, Asia will need to confront and reverse the land degradation trends to meet the needs of its population.
◆ In 2004, USAID/Global Health (GH) worked with partners to expand simple approaches to providing safe water to the millions of households lacking secure water supplies. The "Safe Water System," developed with the Centers for Disease Control (CDC), provides household water disinfection with diluted bottled chlorine solution coupled with safe water storage and hygiene education. This system is now operating at national scale in Madagascar and Zambia and at sub-national scale in Afghanistan and India. USAID also worked with Procter & Gamble and other partners on a product which purifies even lower quality water by removing suspended sediment as well as a disinfecting with chlorine. In 2004, USAID and partners launched this approach on a fully commercial basis in Pakistan, and are also applying it through NGOs in Haiti and in emergency/refugee settings in Ethiopia. In addition, three million people have improved access to safe water with the construction of 497 wells since the start of the Water for the Poor Initiative.	◆ Rural and poor populations, often the majority in many countries in Latin America and the Caribbean, face many obstacles to quality education. Language barriers, long distances to schools, and poorly trained teachers contribute to very high dropout rates. In some countries, fewer than 60 percent of the children who start school reach the fifth grade. Access to education, low enrollment, and high illiteracy are continuing concerns for the Asia and Near East region. Over half the world's illiterate population lives in this region, and 69 percent of the world's illiterate females. Enrollment for girls is a large problem.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

SOCIAL AND ENVIRONMENTAL ISSUES *(continued)*

Results	Challenges
◆ USAID is making strides to improve the environment around the world. In Bolivia, USAID built partnerships among local communities, the forest industry, and the public sector to improve the management of valuable tropical forests. With 7.5 million hectares of commercial forests under approved management plans in 2003 and nearly 1.2 million hectares certified as well-managed and another 1 million-plus hectares awaiting certification, Bolivia has the largest area of certified natural forest management in the tropics. In Iraq, the Marshlands Restoration Program is restoring the marshland ecosystem through improved management and strategic re-flooding resulting in health and economic benefits to the Marsh Arabs. Missions are also working to stop illegal logging by improving ownership and management of over two million hectares of forest lands in Asia and the Near East. USAID Missions in the Philippines, Indonesia, Afghanistan, and Bangladesh have also embarked on new programs to rehabilitate degraded lands. ◆ In education, USAID's Centers for Excellence in Teacher Training have trained nearly 7,000 teachers in techniques for teaching reading, and trained teachers to produce educational materials. The Regional Education and Employment Alliance has been created to give children a higher quality basic education that leads to livelihood skills and employment. Current priority countries include Egypt, India, Indonesia, Morocco, Pakistan, and the Philippines. In Afghanistan, USAID distributed 15 million textbooks and 30,000 teachers' kits, and in India, USAID is renovating more than 5,000 schools in two states, reaching over one million students.	

HUMANITARIAN RESPONSE

Results	Challenges
◆ In response to the crisis in Darfur, Sudan, and Eastern Chad, the USAID Office of Foreign Disaster Assistance (OFDA) has deployed a Disaster Assistance Response Team and has worked tirelessly to help suffering populations. USAID assistance to Darfur and Eastern Chad in FY 2004 exceeded $71 million, and included efforts to provide water and sanitation, shelter, nutrition, agricultural inputs, and other important support. ◆ The Office of Food for Peace (FFP) provided over 325,000 metric tons of Title II resources, valued at approximately $215 million, to Zimbabwe, Zambia, and Malawi. Through the World Food Program (WFP) and the Consortium for Southern Africa Food Security Emergency (C-SAFE), a consortium of NGOs operating in the region, FFP helped sustain a population of more than 12 million people, preventing the development of a major humanitarian crisis in the region. The Agency also continues to provide critical humanitarian assistance to the people of Ethiopia, as the confluence of periodic drought, rapid population growth, and stagnating agricultural productivity has led to a cyclical pattern of food insecurity. In the country's latest food crisis, approximately 13.2 million Ethiopians—20 percent of the population—needed emergency food assistance. This response required over one million metric tons of commodities, valued at $450 million, in order to avert widespread famine conditions and population movements.	◆ Food is often identified as the most immediate and critical need of people living with HIV/AIDS and households affected by HIV/AIDS in the countries where food aid programs are implemented. In addition, households affected by HIV/AIDS are more vulnerable to food insecurity. Clearly, interventions focusing on food insecurity and nutritional status should take into account the impact of HIV/AIDS, and HIV/AIDS strategies and interventions should consider the nutrition and food security problems facing individuals infected by HIV and communities and families affected by HIV/AIDS. Food aid resources, however, have not increased in response to this heightened awareness. Although the attempt is made to seize opportunities to link HIV/AIDS and food-assisted programs, it is clear that current food aid levels may preclude any increases in resources provided in support of HIV/AIDS programming objectives.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

MANAGEMENT AND ORGANIZATION EXCELLENCE

Results	Challenges

Results

◆ Five USAID overseas Missions – Egypt, Ghana, Peru, Columbia, and Nigeria – went live with Phoenix, the new financial management system, in FY 2004. Phoenix, unlike the current overseas Mission Accounting and Control System (MACS) it replaces, is compliant with federal regulations and when fully implemented will be the central component of the Agency's global business platform.

◆ In FY 2004, the U.S. Office of Personnel Management (OPM) approved the Agency's appraisal plans and award programs to ensure that performance appraisals link, differentiate, and provide consequences for Senior Executive Service (SES), Senior Foreign Service (SFS), and Managers.

◆ The Development Readiness Initiative (DRI), modeled after the Department of State's successful Diplomatic Readiness Initiative, was launched by Administrator Natsios in FY 2004. The DRI is the most aggressive recruitment effort to rebuild and revitalize the Agency's workforce in more than a decade. This initiative, the cornerstone of the Agency's succession planning efforts, provides surge capacity to respond quickly to emerging program priorities. The Agency hired approximately 50 new employees with mission critical skills through the DRI in FY 2004.

◆ The Agency developed a formal strategic budgeting model to help decide how to allocate resources to bilateral country programs. The Agency first applied this model to the formulation of its FY 2004 budget request, which resulted in reallocation of some funds from lower performing to higher performing programs. The model was expanded during the formulation of the FY 2005 budget to categorize countries based on Millennium Challenge Account (MCA) criteria of commitment to economic freedom, governing justly, and investing in people.

◆ To shape the development policy debate, the Bureau of Policy & Program coordination (PPC) worked closely with technical experts in the bureaus and missions and with interagency partners to analyze policy and strategy issues, develop and disseminate USAID core policies and strategies, and develop outreach materials that convey USAID analysis and policy to target audiences within and outside the Agency. During 2004 USAID finalized and disseminated a major discussion paper: "U.S. Foreign Aid – Meeting the Challenges of the Twenty-first Century," as well as other analytical papers focused on growth and on governance in Muslim societies. USAID also completed strategies for agriculture, fragile states (pending), education (pending) and anti-corruption (pending), as well as policy papers on assistance to internally displaced persons and on conflict (pending).

Challenges

◆ In FY 2005, USAID must be able to ensure to OMB that performance appraisal plans link, differentiate, and provide consequences for 60 employees.

◆ Resources must continue to be provided for the DRI. The DRI plan initiated in FY 2004 calls for the Agency to hire a total of 250 additional employees over the next three years, thereby increasing the direct hire workforce from about 2,000 in FY 2004 to 2,250 by FY 2006 (assuming full funding). These new employees are being recruited through several hiring mechanisms. Entry-level Foreign Service Officers are being recruited and trained through the International Development Intern (IDI) program. The Agency is reinstating a Contract Specialist Intern Program (CSIP) and expanding the use of Presidential Management Fellows (PMF) to fill critical skill gaps in its procurement staff and other Washington-based Civil Service positions.

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ILLUSTRATIVE EXAMPLES OF SIGNIFICANT ACHIEVEMENTS

STRATEGIC GOAL #1: REGIONAL STABILITY

USAID was instrumental in the organization and success of the International Reconstruction Conference on Liberia and in attracting vital political and financial support ($500 million pledged) from key regional and international institutions during the initial critical phases of the transitional period, thereby preventing a backslide into continued conflict. USAID/Liberia's extensive reintegration and peace building programs promote community-based economic revitalization and reconciliation and have set the standard for other donors, demonstrating the U.S. commitment to stability in the region.

After fifteen years of war, political and financial pledges of support at the USAID-supported International Reconstruction Conference is providing Liberians with hope to build a future of regional stability.

STRATEGIC GOAL #2: COUNTERTERRORISM

USAID works in 75 percent of the frontline countries identified as vulnerable to exploitation by terrorist organizations. USAID's education programs provide an alternative to radical Islamic madrassas; the Agency's skills training and economic enterprise programs offer opportunities and alternatives to radical clerics' recruitment. USAID's financial reform programs help combat money laundering and are helping reduce the flow of funds to terrorist groups. USAID democracy and governance programs help build transparency in government that can deny terrorist sanctuary and safe haven. These USAID efforts – ongoing for years – now have a very specific focus in U.S. national security.

USAID-funded education programs, such as the formal education process exemplified in this photo, provide a positive alternative to the radical teachings of the Islamic madrassas.

STRATEGIC GOAL #3: INTERNATIONAL CRIME AND DRUGS

In the late 1980's and early 1990's, the Chapare region of Bolivia was home to about 35,000 hectares of coca, and legal crops covered an equal number of hectares. With the efforts of USAID and the government of Bolivia over the last 10 years, the area committed to coca has dropped by over 85 percent, to 4,500 hectares, and the area committed to legal crops has expanded to more than 135,000 hectares. USAID programs have introduced new crops and agricultural research, stronger market linkages and producer groups, a vast network of all-weather cobblestone farm-to-market roads, electrification, investment promotion, and environmental mitigation. This support for market-led and private sector-driven agricultural growth has increased trade in Bolivian crops. The wholesale value of all legal farm production rose 33 percent between 2000 and 2003 to approximately $37 million, and the value of private sector investment in the Chapare (excluding petroleum and lumber) rose 163 percent between 1999 and 2003 to $68.5 million.

USAID's income diversification program has been able to transform the lives of the Bolivian rural poor in the high mountain valleys by raising farmers' incomes significantly.

STRATEGIC GOAL #4: DEMOCRACY AND HUMAN RIGHTS

Funded through the Africa Bureau's Anti-Corruption Initiative, a sub-grant to the Timber Producers Association of Zambia (TPAZ) exposed the corrupt inner workings of the timber industry and illicit dealings by commercial saw millers. To expose corrupt government officials, TPAZ officials, with cameramen from the national television station, led the Deputy Environment Minister on a surprise raid of an illegal lumberyard. This was captured in dramatic news footage, and broadcast nationally, showing the Minister in conflict with the manager of the plant, who refused to reveal the source of the company's timber. The manager, a foreigner, was fined and deported. The episode revealed the extent of corruption in the timber industry, resulting in the government's temporarily banning the issuance of lumber licenses in order to realign procedures to curb corruption.

USAID's Anti-Corruption Initiative is helping Zambia expose illicit dealings in the timber industry, thus increasing private sector competitiveness in agriculture and natural resources.

STRATEGIC GOAL #5: ECONOMIC PROSPERITY AND SECURITY

The three regional "Hubs for Global Competitiveness" created in West (Accra), Southern (Gaborone) and East (Nairobi) Africa through the Presidential Trade for African Development and Enterprise (TRADE) Initiative have undertaken a variety of training and technical assistance activities to support African countries' efforts to reap the benefits of the Africa Growth and Opportunities Act (AGOA). The southern Africa Hub, for example, has provided training in support of the U.S.-Southern Africa Customs Union Free Trade Arrangement negotiations with workshops on trade in services, rules of origin, environmental trade issues, and tariff policy. Largely as a result of AGOA, U.S. total trade with sub-Saharan Africa rose 37 percent in the first half of 2004 over the same period a year earlier and AGOA imports during the same period increased by 75 percent to $11.6 billion.

The African Growth and Opportunity Act (AGOA) offers tangible incentives for African countries to continue their efforts to open their economies and build free markets.

STRATEGIC GOAL #6: SOCIAL AND ENVIRONMENTAL ISSUES

USAID has continued to help several countries in Eastern Europe and the former Soviet Union to reform their health systems, a long-term and crucial process that will turn systems based on an inefficient and ineffective Soviet model into modern, sustainable, and effective systems based on primary health care. Significant achievements were made toward this effort in FY 2004. USAID/Armenia implemented a physician open enrollment scheme in two of Armenia's largest cities, whereby 147,996 patients (52 percent of the catchment's population) can now choose their primary care physician rather than being assigned one. Health care providers in the program will be remunerated according to the number of enrollees and quality of services. The Ministry of Health is considering countrywide implementation in 2005-2006. In Kyrgyzstan, a single-payer health financing system was rolled out to two more provinces, meaning that six of the country's eight provinces, plus the capital, are now covered by a reliable, realistic health care funding mechanism. In Kazakhstan, the Ministry of Health approved the first ever set of evidence-based clinical practice guidelines for outpatient care, a major shift from the former practice of following non-evidence based government edicts.

USAID helps countries like Armenia reform its health sector to ensure continued protection for socially vulnerable groups. © Carl Mabbs-Zeno

STRATEGIC GOAL #7: HUMANITARIAN RESPONSE

The United States continues its leadership in emergency feeding programs worldwide. Darfur, Sudan, was the greatest challenge for USAID's Food for Peace office (FFP) in FY 2004. Working though Agency private voluntary organizations (PVO) and UN World Food Program partners, U.S. food valued at over $113 million (representing over half of total food given for Darfur) is making its way to more than 1.5 million conflict-affected Sudanese in Darfur, and another 200,000 who fled to camps in neighboring Chad. As a result of early and substantial U.S. action, famine in Darfur has been averted.

In FY 2004, USAID's Food for Peace office addressed the needs of 1.5 million Sudanese for food security in Darfur.

STRATEGIC GOAL #8: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Strategic Budgeting Model: The Agency developed a formal strategic budgeting model to help decide how to allocate resources to bilateral country programs. The model is based on the following criteria: development need, country commitment, foreign policy importance, and program performance. The Agency first applied this model to the formulation of its FY 2004 budget request, which resulted in reallocation of some funds from lower performing to higher performing programs. The model was expanded during the formulation of the FY 2005 budget to categorize countries based on Millennium Challenge Account (MCA) criteria of commitment to economic freedom, governing justly, and investing in people. The countries were divided into four categories: Top Performers (based on MCA criteria), Good Performers (including near misses and other high performers who do not meet the per capita income threshold for MCA consideration), Fragile or Failing States, and Other Foreign Policy Priority Countries (those which are rated low on country commitment, as measured by MCA criteria, but which are important for U.S. foreign policy reasons). This more sophisticated model was used to inform the budget allocations to USAID country programs across the four categories. The Agency has several appropriation accounts that finance country programs around the world.

The development of the Agency's formal strategic budgeting model significantly enhances the efficiency and effectiveness of bilateral resource allocations.

STRATEGIC GOAL #8: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE *Continued*

Phoenix Accounting System Overseas Deployment: On September 21, 2004, Administrator Natsios thanked the Phoenix pilot missions – Colombia, Egypt, Ghana, Peru, Nigeria – for their successful implementation of Phoenix and announced that all missions should get ready for worldwide deployment. He stated that Phoenix "is not just a CFO (Chief Financial Officer) project, not just an M (Management Bureau) project. Every officer in every mission must understand Phoenix or we will not successfully implement it." The Agency plans to fully replace the Mission Accounting and Control System (MACS) worldwide by April 2006.

Phoenix becomes operational in Peru.

USAID is coordinating the implementation of Phoenix overseas with the State Department through a project referred to as the Joint Financial Management System (JFMS). This project began in 2002 when it was recognized that State and USAID were independently implementing the same financial software package, and they could achieve savings by working together to implement a common platform to serve both agencies. Deployment of Phoenix overseas will extend the headquarters core accounting system to USAID's worldwide missions and, when fully implemented, will be the central component of the Agency's global business platform. The overseas deployment of a web-based, financial management system will provide an affordable and standardized Agency-wide system for budget execution, accounting, and financial management.

Procurement System Improvement Project (PSIP): The Agency launched the implementation phase of PSIP. The goal of PSIP is to replace the current acquisition and assistance system with a Web-based system that will be integrated with USAID's financial accounting system. This undertaking brings to USAID a single, Agency-wide application to handle acquisition, assistance, and financial accounting needs. There will be many benefits, including the elimination of redundant data entry. It will also bring electronic processing capability for the first time to field missions. In addition, PSIP will provide for integrated procurement and financial systems which will facilitate budgeting, planning, procurement, and performance management. A new procurement system will be deployed to overseas missions in coordination with the Phoenix rollout and the overall Joint State-USAID Strategic Plan for FY 2004 – 2009.

Capital Planning and Investment Control (CPIC) Process Implementation: USAID established new CPIC procedures that are streamlined and compliant with federal regulations. The new procedures were designed to implement investment practices required by the Clinger-Cohen Act of 1996. This legislation requires that major IT investments be supported by comprehensive business cases, evaluation and control mechanisms, and be approved by a high level executive body representing Agency-wide business interests. The Business Transformation Executive Committee (BTEC) serves as the CPIC authority for USAID. To ensure that approved projects are meeting the objectives described in business cases, quarterly progress reports are required.

Increased Human Resources (HR) Capacity to Support USAID's Mission: Based on comments from the Administrator's annual Employee Survey, the Agency is developing a strategy to improve personnel services and streamline HR processes. To enhance services, an automated recruitment tool, was introduced to accelerate processing of HR transactions. It reduces the amount of time required to fill vacancies, streamlines the job application process, and provides timely information to applicants. As a result, the internal recruitment cycle has been reduced from 229 days to less than 45 days from job announcement to employee selection in conformance with OPM standards. An internal study revealed that AVUE has saved the Agency the equivalent of seven full-time positions due to the streamlining of processes. AVUE features enable filling out and submitting applications online, notifying applicants of the status of their application by e-mail, and automating the rating and ranking process. These increased efficiencies enable the Agency's HR professionals to devote more time to serving as consultants to their customers.

Joint State Department/USAID Collaboration: USAID and the Department of State formed a Joint Management Council to oversee and implement collaborative management activities to which the agencies had committed in the Joint State-USAID Strategic Plan for FY 2004-2009. The Council established eight working groups to collaborate on joint activities in the following areas:

- ◆ Resource Management
- ◆ Management Processes and Systems
- ◆ Management Services and Planning
- ◆ Information and Communications Technology
- ◆ E-Government
- ◆ Facilities
- ◆ Security
- ◆ Human Capital

As a result, USAID and the Department of State achieved the following in FY2004:

- ◆ Implemented shared services pilots at four overseas posts to improve administrative services and eliminate wasteful and/or unnecessary duplication.

- ◆ Developed a pilot exchange program of domestic and foreign assignment opportunities for mid-level Foreign Service Officers from both the Department of State and USAID in order to increase understanding in the two agencies of each other's role in the foreign affairs process and help fill respective program needs with trained officers; aligned both State Department and USAID budget and planning cycles to ensure policy and program decisions are made with full input from both State and USAID.

- ◆ Established direct connections between the Department of State's and USAID's intranets, making both networks available to domestic and overseas staff from each agency.

Program Assessment Rating Tool (PART) Status

The Office of Management and Budget (OMB) uses the Program Assessment Rating Tool (PART) to assess federal programs. The PART is a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, program management, and results. PART results and ratings are then used to inform the budget process and improve program management to ensure the most effective and efficient use of taxpayer dollars.

To date, USAID and OMB have conducted seven PART reviews for USAID programs. PART reviews conducted this year include both one new assessment and two reassessments from previous years. For CY 2004 (FY 2006 budget process), some of the programs that were newly evaluated include the Andean Counterdrug Initiative, Global Educational and Cultural Exchange programs, and the Human Rights and Democracy Fund. All of USAID's programs assessed to date fall within the "Adequate" to "Moderately Effective" categories. USAID has no programs rated as "Results Not Demonstrated" or "Ineffective." (See table below.)

Based on the analysis of this year's assessment, the Agency shows strength in its program purpose and design, program management, and strategic planning efforts. The results are summarized on the following pages by strategic goal, including major findings and recommendations, and actions taken or planned to address the findings and recommendations.

The results from the seven PART reviews are summarized below by OMB rating category. On the following pages, information also is provided describing how bureaus have addressed and implemented findings and recommendations for FY 2004 PARTs and FY 2005 PARTs summarized by Strategic Goal.

RATING SUMMARY AS OF FY 2006 CYCLE	
Rating	**Distribution**
Effective	0%
Moderately Effective	72%
Adequate	28%
Results Not Demonstrated	0%
Totals	100%

FY 2004 Part Programs

STRATEGIC GOAL 4/5	DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY
Program Name	**USAID Development Assistance - Population**
Rating	◆ Calendar Year (CY) 2002: Moderately Effective
Lead Bureau	◆ Agency for International Development - Global Health (GH)
Major Findings/ Recommendations	◆ The program has been highly effective in increasing contraceptive use in assisted countries. ◆ The program does not allocate resources across regions and countries in an optimal way to respond to highest need. ◆ The program should continue to provide resources at the FY 2003 level, and take steps to better align resource allocations with country needs through new performance budgeting efforts.
Actions Taken/Planned	◆ Strategic resource allocation model for this sector has been developed. Application of this need-based approach resulted in a $30 million resource shift to high-need countries in 2004: based on measures of demand for family planning services, levels of fertility and mortality, and population density. The approach continues to be refined and will be applied in 2005 allocations.
STRATEGIC GOAL 6	**USAID SOCIAL AND ENVIRONMENTAL ISSUES**
Program Name	**Global Climate Change (GCC)**
Rating	◆ CY 2002: Adequate
Lead Bureau	◆ Agency for International Development - Economic Growth, Agriculture, and Trade (EGAT)
Major Findings/ Recommendations	◆ The program is managed well. The real issue for the program is redefining its role in foreign policy. ◆ Only one of the program's performance measures is measurable and has a cumulative target linked to an outcome. The program would benefit from improved measures.
Actions Taken/Planned	◆ The GCC program is in the process of developing a new strategy to update its goals. ◆ The GCC program is improving measurability by developing methodologies to measure carbon sequestration (awarded cooperative agreement 9/03 to NGO with expertise in carbon measurement). ◆ The GCC program reflects Administration's priorities by actively participating in bilateral climate change discussions with State Department, and is a member of the negotiating team in international climate change negotiations.

STRATEGIC GOAL 7	HUMANITARIAN RESPONSE
Program Name	USAID Public Law 480 Title II Food Aid
Rating	◆ CY 2002: Adequate
Lead Bureau	◆ Agency for International Development - Democracy, Conflict, and Humanitarian Assistance (DCHA)
Major Findings/ Recommendations	◆ Overall changes in the well being of hungry people are difficult to measure. ◆ Emergency food aid, which provides food to prevent or reduce discrete and protracted famines, has demonstrated adequate progress. ◆ The program would be more cost-effective if several congressional mandates were eliminated, such as cargo preference requirements.
Actions Taken/Planned	◆ Development of a Food for Peace Office of Strategic Plan provides indicators that will better measure the well being of those receiving food aid. ◆ Working closely with the Department of Transportation, U.S. Department of Agriculture (USDA), and others, USAID aggressively is pursuing ways to strike a balance in relief of cargo preferences and purchase of minimal tonnage of food aid requirements and other congressional mandates.

FY 2005 Part Programs

STRATEGIC GOAL I	REGIONAL STABILITY
Program Name	USAID Transition Initiatives
Rating	◆ CY 2003: Moderately Effective
Lead Bureau	◆ Agency for International Development - DCHA/Office of Transition Initiatives (OTI)
Major Findings/ Recommendations	◆ The assessment found that the program is strong overall. ◆ OTI's performance measurement is strong at the individual program/country level, but there is no aggregate measurement of OTI's effectiveness across the board. ◆ USAID will closely monitor the development of OTI's short and long-term baselines, timeframes, and targets to ensure their timely completion.
Actions Taken/Planned	◆ Currently working to put systems in place to aggregately measure OTI's effectiveness. ◆ Developing a system to ensure timely completion of OTI's monitoring process at the mission level.

STRATEGIC GOAL 4/5	DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY
Program Name	USAID Child Survival and Health – LAC Region
Rating	◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Moderately Effectively
Lead Bureau	◆ Agency for International Development - LAC Bureau
Major Findings/Recommendations	◆ The program is closely aligned with U.S. foreign policy priorities in the region. ◆ The program cannot adequately demonstrate progress in achieving results due to the lack of LAC regional performance measures and targets. At the country, or operating unit level, however, targets are, with few exceptions, being met or exceeded.
Actions Taken/Planned	◆ LAC has implement a system of regional common performance indicators that will facilitate the setting of ambitious annual and long-term performance targets, the measurement of results, and an annual budgeting process that is directly integrated with performance.
STRATEGIC GOAL 4/5	DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY
Program Name	USAID Development Assistance – LAC Region
Rating	◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Moderately Effective
Lead Bureau	◆ Agency for International Development - LAC Bureau
Major Findings/Recommendations	◆ The program is closely aligned with U.S. foreign policy priorities in the region. ◆ The program cannot adequately demonstrate progress in achieving results due to the lack of LAC regional performance measures and targets. At the country, or operating unit level, however, targets are, with few exceptions, being met or exceeded.
Actions Taken/Planned	◆ LAC has implement a system of regional common performance indicators that will facilitate the setting of ambitious annual and long-term performance targets, the measurement of results, and an annual budgeting process that is directly integrated with performance.

FY 2006 Part Programs

STRATEGIC GOAL 8	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE
Program Name	USAID Operating Expenses/Capital Investment Fund
Rating	◆ CY 2004: Moderately Effective
Lead Bureau	◆ Agency for International Development
Major Findings/Recommendations	◆ Requested from OMB, but not received in time for inclusion in the FY 2004 PAR.
Actions Taken/Planned	◆ Dependent upon OMB response.

The President's Management Agenda

"**W**HAT MATTERS MOST IS PERFORMANCE AND RESULTS. IN THE LONG TERM, THERE ARE FEW ITEMS MORE URGENT THAN ENSURING THAT THE FEDERAL GOVERNMENT IS WELL RUN AND RESULTS-ORIENTED. THIS ADMINISTRATION IS DEDICATED TO ENSURING THAT THE RESOURCES ENTRUSTED TO THE FEDERAL GOVERNMENT ARE WELL MANAGED AND WISELY USED. WE OWE THAT TO THE AMERICAN PEOPLE."

– President George W. Bush

USAID has made significant progress in its business transformation and this has been reflected in the Agency's scores on each of the five government-wide initiatives in the President's Management Agenda (PMA). Issued quarterly by the OMB, an Executive scorecard rates progress and overall status in each of the PMA initiatives using a color-coded system that is based on criteria that are used by all federal agencies. As of September 30, 2004, USAID achieved three "green" scores and two "yellow" scores for progress in achieving the OMB-developed, government-wide criteria and remains "red" in status for three of the five initiatives. Since March 2004, the Agency has maintained "yellow" status scores for Expanded e-Government and Budget and Performance Integration. For the PMA agency-specific Faith-Based and Community Initiative, USAID received "green" for progress and "red" for status. The following is a summary of USAID's overall progress towards achieving the goals of the PMA during FY 2004. The progress and status scores below are as of September 30, 2004.

PROGRESS	USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL	STATUS

Goal

Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with strategic objectives.

Progress

◆ Finalized the five-year Human Capital Strategic Plan that lays out plans to address workforce issues in the coming years.

◆ Hired 85 limited term Foreign Service officers in first year of three-year, congressionally authorized recruitment program.

◆ Implemented the first year of the three-year DRI.

◆ Conducted a study to incorporate affirmative employment goals into recruitment strategies and designed strategies to address underrepresentation.

◆ Revised Senior Foreign Service promotion precepts policy and related regulations and guidance.

◆ Completed an Agency Business Model Review (BMR) and recommended consolidating administrative functions in regional service centers to further rationalize staffing and to streamline overseas operations.

◆ Developed and implemented a Succession Planning Strategy to address critical skills gaps.

◆ Completed and implemented the human capital accountability system; completed and analyzed the baseline data for performance metrics.

◆ Began the development of a comprehensive workforce analysis and workforce planning process; collected and utilized initial mission critical workforce planning data; and began identifying and addressing gaps in mission critical occupations and competencies.

PROGRESS

USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL *Continued*

STATUS

Upcoming Action

◆ Implement new Civil Service performance appraisal system and Annual Evaluation Form (AEF).

◆ Develop new Senior Foreign Service performance system for the 2005 rating period, in concert with the Department of State.

◆ Begin second year of DRI.

◆ Design and implement new SES performance system for the 2005 rating period.

◆ Complete diversity study and prepare recommendations to the Administrator.

◆ Conduct overseas mission management assessments per BMR.

◆ Complete Headquarters/Field Alignment Study.

◆ Complete development of workforce planning and workforce analysis process and begin implementation of strategies to eliminate mission critical skills gaps.

PROGRESS

IMPROVED FINANCIAL PERFORMANCE

STATUS

Goal

◆ Improve accountability through audited financial statements; strengthen management controls; implement financial systems that produce timely, accurate, and useful financial information to facilitate better performance measurement and decision-making.

Progress

◆ Received an unqualified audit opinion on USAID's FY 2004 financial statements.

◆ Completed the first round of overseas deployment of the Phoenix financial management system in five missions (Ghana, Egypt, Peru, Nigeria, and Colombia).

◆ Completed actions needed to close three auditor material weaknesses.

◆ Closed the Federal Managers' Financial Integrity Act (FMFIA) material weakness on computer security.

◆ Implemented an electronic solution for the reconciling and payment of purchase card corporate invoices in Washington.

◆ Completed delivery of hardware for network coordination through the first joint State/USAID procurement.

◆ With State Department, developed a joint business case for a common financial systems platform.

Upcoming Action

◆ Continue with the worldwide rollout of the Phoenix accounting system.

◆ Complete the design of the functional and technical components of the integrated financial system in collaboration with State Department to establish a joint financial platform.

◆ Develop action plan to address any auditor material weaknesses, reportable conditions, or material non-compliances identified in FY 2004 Government Management Reform Act (GMRA) audit report.

◆ Establish a back-up operations facility that will provide access to the financial system for continuity of operations in an emergency.

◆ Implement plan to obtain electronic certifications from responsible offices that strategic objectives correspond to appropriate Agency goals.

PROGRESS	BUDGET AND PERFORMANCE INTEGRATION	STATUS

Goal

Improve performance of programs and management by linking performance to budget decisions and improve performance tracking/management. The ultimate goal is to better control resources and have greater accountability of results. Eventual integration of existing segregated and burdensome paperwork requirements for measuring the government's performance and competitive practices with budget reporting.

Progress

◆ In March 2004, improved status score from "red" to "yellow" as a result of strategic budgeting improvements.

◆ Developed requirements for performance appraisal plans to link, differentiate, and provide consequences for members of the SES, Senior Foreign Service, and managers.

◆ Developed efficiency measures for all of the programs that underwent the PART process surpassing the "> 50% of PART'ed programs" PMA milestone by completing these efficiency measures.

◆ Seven agency programs (60 percent) received PART rating of "adequate" or better.

◆ Finalized Agency-wide common indicators for all performance goals as defined in the Joint State-USAID Strategic Plan.

◆ Utilized strategic budgeting model to inform and support the Bureau Program and Budget Submission process.

◆ Synchronized Bureau budget reviews with State, and completed a joint USAID/State Annual Planning Budget for 2006.

◆ Developed Joint Performance Plan with State that contains performance targets for all regional indicators identified through the PART and newly finalized agency-wide indicators.

Upcoming Action

◆ Develop efficiency measures for upcoming programs scheduled for PART review.

◆ Develop common performance indicators from previously PARTed programs in accordance with Performance Goals defined in the Joint State-USAID Strategic Plan and the Joint Performance Plan.

◆ Implement procedures for streamlining the Agency's strategic planning and reporting processes.

PROGRESS	COMPETITIVE SOURCING	STATUS

Goal

Achieve efficient, effective competition between public/private sources; establish infrastructure to support competitions and validate savings and/or significant performance improvements.

Progress

◆ USAID's BTEC approved revisions to Competitive Sourcing (CS) policy that include Business Process Improvement (BPI) actions.

◆ Developed and implemented a revised CS communication plan that factors in BPI activities.

◆ Completed Business Model study of overseas staffing that included a review of outsourcing vs. direct provision of services.

◆ Completed actions related to the Agency's Recruitment BPI Plan including implementing improvements to the Agency's automated electronic recruitment tool AVUE. Recruitment BPI has improved recruitment processes to meet OPM 45-day hiring model.

Upcoming Action

◆ Revise CS strategic plan for review and endorsement by Agency's BTEC.

◆ Develop FY 2004 CS Accomplishments report to Congress.

PROGRESS

STATUS

EXPANDED ELECTRONIC GOVERNMENT

Goal

Expand the federal government's use of electronic technologies (such as e-Clearance, Grants.gov, and e-Regulation), so that Americans can receive high-quality government service, reduce the expense and difficulty of doing business with the government, cut government operating costs, and make government more transparent and accountable.

Progress

◆ In March 2004, improved status score from "red" to "yellow" as a result of activities to establish an Enterprise Architecture (EA). First component of the EA identified HIV/AIDS new technology and policy initiatives and provided the foundation for developing an Executive Information Systems (EIS) prototype to support reporting requirements under the President's Emergency Plan for AIDS Relief (PEPFAR).

◆ Completed implementation plan for joint EA with Department of State and completed joint EA business case.

◆ Completed select, control and evaluation process for FY 2006 business cases per Agency's Capital Planning and Investment Control (CPIC) policies.

◆ Completed certification and accreditation for major IT systems. The Office of Inspector General (OIG) verified that 100 percent of the Agency's operational IT systems are secure.

E-Gov Initiatives:

◆ Completed migration plan for e-Travel.

◆ Finalized e-Gov Memorandum of Understanding (MOU) with GSA for Integrated Acquisition Environment (IAE).

◆ Completed draft Migration Plan for e-Grants with the Department of Health and Human Services (DHHS).

◆ Completed draft Migration Plan for e-Clearance in collaboration with State.

◆ Completed E-Authentication risk assessments on all systems.

Upcoming Action

◆ Complete joint State-USAID award of contract to manage e-Travel.

◆ Complete pilot for e-Clearance.

◆ Complete pilot for e-Grant.

◆ Develop detailed Earned Value Measurement Implementation Plan and Alternatives Analysis.

◆ Develop a joint EA repository.

◆ Produce in collaboration with State a subset of EA dealing with telecommunications and security.

PROGRESS	FAITH BASED AND COMMUNITY INITIATIVE	STATUS

Goal

Enhance opportunities for faith-based and community organizations (FBCOs) to compete for federal funding, monitor compliance with equal treatment regulations in addition to identifying barriers to the equal participation of FBCOs in agency programs, collect data on the participation of FBCOs in agency programs, and implement and evaluate demonstration programs where FBCOs participate.

Progress

◆ Coordinated outreach and technical assistance to FBCOs.

◆ Began to collect and evaluate data on the participation of FBCOs in USAID programs.

◆ Developed and expanded FBCI web page to include information about funding opportunities and technical assistance.

◆ Published a Federal Register regulation on the participation of religious organizations in USAID programs.

◆ Initiated online registration for FBCOs in order to provide outreach and technical assistance.

◆ Implemented three demonstration programs.

Upcoming Action

◆ Implement a comprehensive outreach and technical assistance strategy.

◆ Evaluate existing demonstration programs.

◆ Implement remaining demonstration projects.

◆ Complete FY 2004 annual report summarizing activities and barriers removed.

◆ Begin action plan to identify and remove additional barriers (if any) to FBCOs in compliance with published regulation.

◆ Implement education strategy on new regulation.

Management Challenges

I n pursuit of its mission, USAID faces a number of issues, known as Major Management Challenges. This section identifies those challenges and high-risk areas cited by the Government Accountability Office (GAO) and USAID's Office of Inspector General (OIG), and the continuing efforts by USAID to address them.

FINANCIAL MANAGEMENT	
Challenge	**Reporting Expenses Associated with USAID Goals**
Findings	USAID's methodology for assigning strategic objective costs to goals needs improvement.
Actions Taken	◆ Obtained annual certifications from responsible offices showing that their strategic objectives are properly assigned to the appropriate Agency goals. ◆ Implemented policy requiring that all strategic objectives be assigned to an Agency goal. ◆ Developed separate allocation methodologies for strategic objectives that must be allocated to more than one Agency goal.
Challenge	**Estimating Accrued Expenditures**
Findings	The OIG identified cases where accrual estimates were not supported or were calculated incorrectly.
Actions Taken	◆ Established and implemented procedures to obtain Cognizant Technical Officer (CTO) information whenever personnel changes affect the information recorded in the Accrual Reporting System (ARS). ◆ Established and implemented procedures to evaluate the reliability of the ARS by performing quarterly reviews. ◆ Established and implemented procedures to compile and maintain quarterly analytical information on the number and amount of modified and system-generated accruals certified in the ARS by USAID's CTOs – by USAID Bureau – to assist in planning follow-up reviews of ARS information. ◆ Additional training will be provided to enhance accrual estimates and supporting documentation.
Challenge	**Recognizing and Reporting Accounts Receivable**
Findings	USAID has taken steps to establish policies and procedures to account for worldwide accounts receivable. However, USAID does not have an integrated financial management system that would facilitate the recognition of accounts receivable when amounts become due to USAID. Instead, USAID relies on a separate data collection tool to gather information on accounts receivable at year end to facilitate preparation of USAID's financial statements..
Actions Taken	Worldwide deployment of the financial system will eliminate this challenge. In the interim, the Agency has established policies and procedures to account for worldwide accounts receivable and will continue to rely on the separate data collection tool.
Challenge	**Reconciling Financial Management Information**
Findings	USAID has made progress in reconciling its fund balance with the U.S. Treasury by establishing a Cash Reconciliation Working Group. This group is focusing its attention on (1) consistently performing monthly and cumulative reconciliation processes, (2) developing methods to monitor unreconciled items, and (3) developing clear instructions and procedures for processing reconciling items. In addition, USAID has developed some guidance that will help USAID accounting stations avoid certain timing differences and other conditions that produce unreconciled items. Nevertheless, USAID continues to record significant unsupported adjustments to its year-end balance with Treasury to bring this amount into agreement with the Department of Treasury's accounts. USAID also needs to reconcile significant differences with its federal trading partners. As of September 30, 2004, the Department of Treasury's Financial Management Service reported $10.4 billion in unreconciled differences between amounts reported by USAID and other federal agencies.
Actions Taken	USAID will continue its work to strengthen operational procedures in this area.

INFORMATION RESOURCE MANAGEMENT	
Challenge	**Improving Information Resource Management Processes**
Findings	The OIG and other organizations have identified organizational and management deficiencies in USAID's information resource management processes. For example, the Clinger-Cohen Act of 1996 requires 1) procedures to select, manage, and evaluate investments; and 2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness, and quality. Although USAID has made progress in improving the above processes, it needs to continue its efforts in this area.
Actions Taken	Refer to the corresponding FMFIA material weakness for a discussion of the actions taken.
Challenge	**Improving Computer Security**
Findings	USAID has taken significant actions to improve its computer security; however, USAID continues to have computer security weaknesses. For example, USAID did not always: ◆ Keep logs of security violations for USAID's Acquisition and Assistance system. ◆ Limit unsuccessful log-on attempts to three. ◆ Terminate user accounts after employees left USAID. ◆ Configure systems to eliminate high-risk vulnerabilities. ◆ Use strong passwords. ◆ Implement effective controls over dial-up access to its systems. Although USAID has developed an information security training program, all key information security employees have not obtained the needed training. Further, under the current organizational structure, USAID's Information Systems Security Officer does not have the authority to enforce training requirements.
Actions Taken	Refer to the corresponding FMFIA material weakness for a discussion of accomplishments, which allowed this weakness to be closed during FY 2004.
OTHER MANAGEMENT CHALLENGES	
Challenge	**Managing for Results**
Findings	The Government Performance and Results Act of 1993 (GPRA), requires that agencies establish strategic and annual plans, set annual targets, track progress, and measure results. In addition, government-wide initiatives, such as the PMA, require that agencies link their performance results to budget and human capital requirements. A significant element of USAID's performance management system is the Annual Report prepared by each of its operating units. These reports provide information on the results attained with USAID resources, request additional resources, and explain the use of and results expected from these additional resources. Information in these unit-level Annual Reports is consolidated to present a USAID-wide picture of achievements in USAID's PAR. The OIG continues to monitor USAID's progress in improving its performance management system. While USAID has made improvements, more remains to be done. For example, the OIG reported that performance information included in the FY 2003 PAR did not contain a clear picture of USAID's planned and actual program performance for that year. As a result, the statements did not adequately link costs to results for FY 2003.
Actions Taken	◆ USAID developed a new approach to development assistance (i.e., White Paper) that more directly links budgeting to specific operational goals. ◆ USAID conducted a Business Model Review of its strategic planning processes and drafted interim guidance for implementing recommendations to increase the efficiency of strategic management. ◆ USAID closed three FY 2003 GMRA audit recommendations related to linking the operating units' strategic objectives to Agency goals for the tracking of costs in the Statement of Net Costs. ◆ The FY 2004 PAR uses USAID's new strategic planning framework and goal structure, following the new Joint USAID/State Department Strategic Plan.

OTHER MANAGEMENT CHALLENGES *(continued)*	
Challenge	**Procurement Management**
Findings	USAID achieves development results largely through intermediaries— contractors or recipients of grants or cooperative agreements. Efficient and effective acquisition and assistance systems are therefore critical. As part of its strategic plan, the OIG has adopted a strategic objective of contributing to the improvement of USAID's processes for awarding and administering contracts, grants, and cooperative agreements. The OIG has developed multi-year strategies to promote increased efficiency and effectiveness in USAID procurement processes. The OIG examined whether the task-ordering process carried out by mission directors affected USAID's ability to meet the goals established by the Small Business Administration (SBA). An audit concluded that USAID had excluded mission task orders from its small and disadvantaged business program. In another audit, the OIG reviewed how USAID missions established staffing requirements for U.S. personal services contractors (USPSC) and whether they awarded U.S. personal services contracts in accordance with selected USAID policies and procedures. This audit report, summarizing the results of audits at eight USAID missions, concluded that USAID's policies on USPSC contract extensions and renewals needed additional clarification for consistency in application at all USAID missions.
Actions Taken	The Office of Acquisition and Assistance has been coordinating with the General Counsel's Office and the Office of Small and Disadvantaged Businesses (OSDBU) in order to obtain guidance that will assist USAID in crafting a management decision that will adequately respond to the auditors' findings. USAID concurred with the recommendation from the audit of USPSC staffing issues and agreed to issue a policy directive.
Challenge	**Human Capital Management**
Findings	Management of a diverse and widespread workforce impacts the ability of USAID to carry out its mission. Accordingly, USAID has undertaken a major effort to improve and restructure its human capital management. However, more remains to be done. Most important, USAID needs to complete its comprehensive workforce analysis and workforce planning initiative, implement the resulting strategies to close or eliminate the identified mission-critical skill gaps, and make progress towards closing those gaps.
Actions Taken	Refer to the President's Management Agenda sections of this report for a discussion of the actions taken.

LITTLE KNOWN FACTS ABOUT THE U.S AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. foreign assistance programs have a long and distinguished list of accomplishments. Here are just a few examples of what the one-half of one percent of the federal budget dedicated to economic and humanitarian assistance has achieved:

◆ More than three million lives are saved every year through USAID immunization programs.

◆ Eighty thousand people and $1 billion in U.S. and Filipino assets were saved due to early warning equipment installed by USAID that warned that the Mount Pinatubo volcano was about to erupt in 1991.

◆ Oral rehydration therapy (ORT), a low cost and easily administered solution developed through USAID programs in Bangladesh, is credited with saving tens of millions of lives around the globe.

◆ 43 of the top 50 consumer nations of U.S. agricultural products were once U.S. foreign aid recipients. Between 1990 and 1993, U.S. exports to developing and transition countries increased by $46 billion.

◆ In the 28 countries with the largest USAID-sponsored family planning programs, the average number of children per family has dropped from 6.1 in the mid-1960s to 4.2 today.

◆ There were 58 democratic nations in 1980. By 1995, this number had jumped to 115 nations.

◆ USAID provided democracy and governance assistance to 36 of the 57 nations that successfully made the transition to democratic government during this period.

◆ Over the past decade, USAID has targeted some $15 million in technical assistance for the energy sectors of developing countries. U.S. assistance has built a $50 billion annual market for private power. U.S. firms are capturing the largest share of these markets, out-competing Japan and Germany.

◆ Life expectancy in the developing world has increased by about 33 percent, smallpox has been eradicated worldwide, and in the past 20 years, the number of the world's chronically undernourished has been reduced by 50 percent.

◆ The United Nations Drinking Water Supply and Sanitation Decade, in which USAID played a major role, resulted in 1.3 billion people receiving safe drinking water sources, and 750 million people receiving sanitation for the first time.

◆ With the help of USAID, 21,000 farm families in Honduras have been trained in improved land cultivation practices which have reduced soil erosion by 70,000 tons.

◆ Agricultural research sponsored by the United States sparked the "Green Revolution" in India. These breakthroughs in agricultural technology and practices resulted in the most dramatic increase in agricultural yields and production in the history of mankind, allowing nations like India and Bangladesh to become nearly food self-sufficient.

◆ After initial USAID start-up support for loans and operating costs, Banco Solidario (BancoSol) became the first full-fledged commercial bank in Latin America dedicated to microbusiness. BancoSol serves about 44,000 small Bolivian businesses, with loans averaging $200 each. The bank now is a self-sustaining commercial lender that needs no further USAID assistance.

◆ More than 50 million couples worldwide use family planning as a direct result of USAID's population program.

◆ In the past 50 years, infant and child death rates in the developing world have been reduced by 50 percent, and health conditions around the world have improved more during this period than in all previous human history.

Financial Section

Financial Highlights

USAID's financial statements for the second consecutive year an unqualified audit opinion issued by the USAID Office of the Inspector General. Preparing these statements is part of the Agency's goal to improve financial management and provide accurate and reliable information useful for assessing performance and allocating resources. Agency management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

USAID prepares consolidated financial statements that include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, a Statement of Budgetary Resources and a Statement of Financing. These statements summarize the financial activity and position of the agency. Highlights of the financial information presented on the principal statements are provided below.

OVERVIEW OF FINANCIAL POSITION

ASSETS. The Consolidated Balance Sheet shows the Agency had Total Assets of $24 billion at the end of 2004. This represents a 10.1% increase over previous year's Total Assets of $21.8 billion. This is primarily the result of increases in USAID's overall Budget Authority, which increased by over $700 million in FY 2004.

Table 1: The Agency's assets reflected in the Consolidated Balance Sheet are summarized in the following table *(dollars in thousands)*:

|	2004	2003	2002
Fund Balance with Treasury	$ 15,854,926	$ 14,215,414	$ 11,897,972
Loans Receivables, Net	6,108,252	5,696,597	5,997,453
Accounts Receivables, Net	1,100,968	1,200,387	527,485
Advances, Cash, and Other Monetary Assets	847,807	623,477	638,377
Property, Plant and Equipment, Net & Inventory	117,718	88,360	74,690
Total Assets	$ 24,029,671	$ 21,824,235	$ 19,135,977

Fund Balances with Treasury and Loans Receivable, Net comprise the majority of USAID's assets. Together they account for over 90% of total assets for 2004, 2003 and 2002. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by $1.6 billion (11.5%) and represent the largest asset dollar amount change from FY 2003.

Existing loans receivables, net of estimated allowances for loan losses, decrease over time as a result of collections. Loan receivables, Net experienced a 7.2% increase from FY 2003. The overall increase in Loans receivable balance was because the decrease to the credit balance of this year's estimated allowance for losses on loans exceeded the decrease to the debit balance of gross loans receivable attributable to loan collections.

The largest percentage change in assets line items on the Balance Sheet occurred in Advances and Prepayments with the Public, an increase of 59.9% (from $350 million in FY 2003 to $560 million in FY 2004). This increase is due to letter of credit draw down activities and the lag in liquidation reporting by grantees.

The pie chart below presents USAID's asset type by percentage for fiscal year 2004.

Chart 1: Percentage of Assets by Type, FY 2004

ASSETS BY TYPE
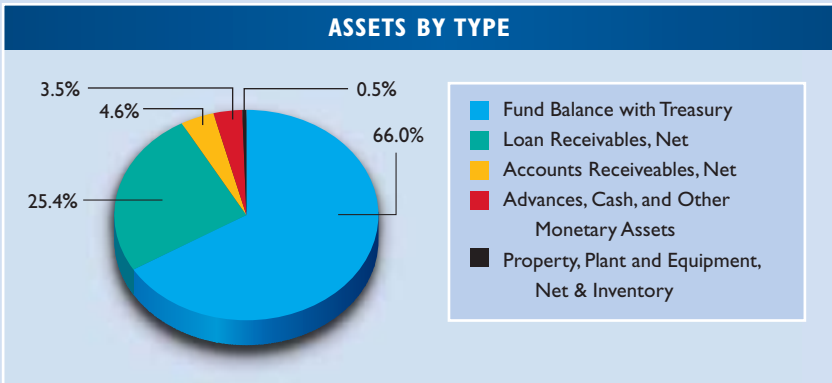
Liabilities. As presented on the Consolidated Balance Sheet, the Agency had almost $10 billion in Total Liabilities at the end of 2004. This amount represents a $642 million, or 6.9% increase in Total Liabilities from the prior year. Liabilities are summarized in the following table *(dollars in thousands)*:
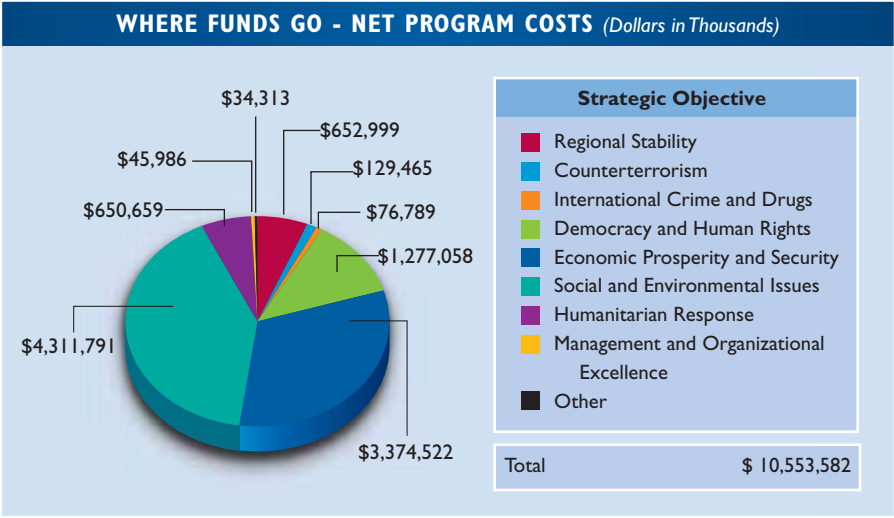
Table 2:

	2004	2003	2002
Debt & Due to U.S. Treasury	$ 6,145,006	$ 5,748,890	$ 5,875,919
Accounts Payable	1,990,001	1,870,077	1,171,533
Loan Guaranty Liability	1,039,937	1,159,415	1,048,751
Other Liabilities	798,847	553,500	396,139
Total Liabilities	$ 9,973,791	$ 9,331,882	$ 8,492,342

As reflected in Table 2, Credit Program Liabilities consisting mainly of Debt, amounts payable to U.S. Treasury and Loan Guaranty Liability account for most of USAID's Total Liabilities for 2004, 2003 and 2002. Debt and Due to Treasury combined represented 61.6 % of Total Liabilities for FY 2004. The Loan Guaranty Liability comprised 10.4 % of Total Liabilities for FY 2004.

Debt and Due to Treasury combined increased by 6.9%, or $396 million, from FY 2003. Loan Guaranty Liability, which is associated with USAID's guarantees of loans made by private lending institutions, decreased by 10.3% or by $119 million from FY 2003.

The largest percentage change in Liabilities occurred in the Other Liabilities line items. Combined Federal and non-Federal Other Liabilities increased by 44.3%, or $245 million, from FY2003. This change is primarily a result of increases in the liability for undisbursed loans and related subsidy re-estimates.
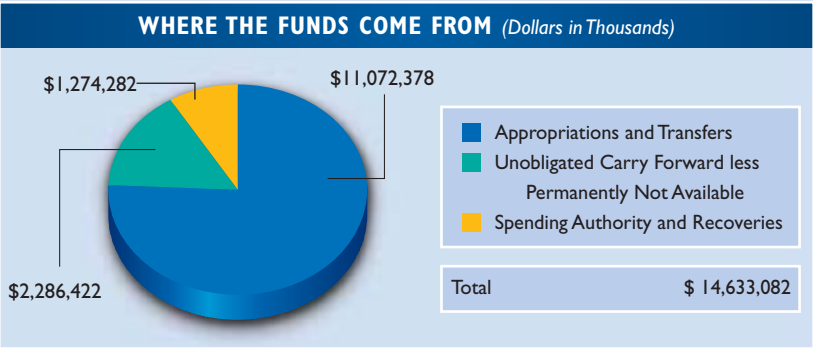
Chart 2: Net Program Costs by Strategic Goal, FY 2004

WHERE FUNDS GO - NET PROGRAM COSTS *(Dollars in Thousands)*

- $34,313
- $652,999
- $45,986
- $129,465
- $650,659
- $76,789
- $1,277,058
- $4,311,791
- $3,374,522

Strategic Objective
- Regional Stability
- Counterterrorism
- International Crime and Drugs
- Democracy and Human Rights
- Economic Prosperity and Security
- Social and Environmental Issues
- Humanitarian Response
- Management and Organizational Excellence
- Other

Total $ 10,553,582

The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. The statement comprises two major components: Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations increased by $1.6 billion or 13.7% from FY 2003 to FY 2004. The growth in Unexpended Appropriations was due principally to the continued increase in budget authority received to rebuild the Agency's programs, including increased funding for Iraq Reconstruction Assistance.

Cumulative Results of Operations amount to $660 million as of September 30, 2004, a decrease of 7.6% from the $714 million balance a year earlier. This balance is the cumulative difference, for all previous fiscal years through 2004, between funds available to USAID from all financing sources and the net cost of USAID.

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Agency for the year and their status at fiscal year-end. For the year, USAID had total budgetary resources of $14.6 billion, an increase of 9.3 % from the 2003 level. Budget authority of $11 billion, consisted of $9.2 billion for appropriations and $1.8 billion in net appropriation transfers. USAID incurred obligations of $11.4 billion for the year, a 13.1% increase from the $10.1 billion of obligations incurred during 2003.

Chart 3 below, reflects Agency budgetary resources for 2004.

WHERE THE FUNDS COME FROM *(Dollars in Thousands)*

- $1,274,282
- $11,072,378
- $2,286,422

- Appropriations and Transfers
- Unobligated Carry Forward less Permanently Not Available
- Spending Authority and Recoveries

Total $ 14,633,082

The Combined Statement of Financing reconciles the resources available to the Agency to finance operations with the net costs of operating the Agency's programs. Some operating costs, such as depreciation, do not require direct financing sources.

MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE WITH LAWS AND REGULATIONS

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

NUMBER OF FMFIA MATERIAL WEAKNESSES BY FISCAL YEAR				
Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
2001	4	–	–	4
2002	4	1	–	3
2003	3	–	–	3
2004	3	1	–	2

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls and financial systems which provide reasonable assurance that the integrity of federal programs and operations are protected. It also requires that the head of the Agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement.

The Administrator's qualified Statement of Assurance for FY 2004 is included in the Administrator's letter at the beginning of this report. The Agency evaluated its management control systems and financial management systems for the fiscal year ending September 30, 2004. This evaluation provided reasonable assurance that the objectives of the FMFIA were achieved, with the exception of the material weaknesses and the material non-conformance of the financial management system noted, and forms the basis for the Administrator's Statement of Assurance.

MANAGEMENT CONTROL PROGRAM

The Management Control Review Committee (MCRC) oversees the Agency's Management Control Program. The MCRC is chaired by the Deputy Administrator, and is composed of senior-level managers, including the ten Bureau Assistant Administrators (AA), the CFO, the Chief Information Officer (CIO), General Counsel, IG (non-voting), Executive Secretariat, Procurement Executive, Independent Office Directors, and Management Bureau Office Directors. Individual annual certification statements from Mission Directors located overseas and AAs in Washington, D.C., serve as the primary basis for the Agency's certification that

management controls are adequate or that material weaknesses exist. The certification statements are based on information gathered from various sources including the managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the OIG and the GAO conduct reviews, audits, inspections, and investigations.

To be considered a material weakness in management control systems for FMFIA purposes, a deficiency should be significant enough that it merits the attention of the next management level and meets one or more of the FMFIA material weakness criteria. The chart below describes the criteria that the Agency uses for FMFIA reviews.

FMFIA MATERIAL WEAKNESS CRITERIA

- ◆ Significantly impairs the organization's ability to achieve its objectives.

- ◆ Results in the use of resources in a way that is inconsistent with Agency mission.

- ◆ Violates statutory or regulatory requirements.

- ◆ Results in a significant lack of safeguards against waste; loss; unauthorized use; or misappropriation of funds, property, or other assets.

- ◆ Impairs the ability to obtain, maintain, report, and use reliable and timely information for decision-making.

- ◆ Permits improper ethical conduct or a conflict of interest.

STATUS OF MANAGEMENT CONTROLS

Title	Fiscal Year First Identified	Corrective Action Date
Computer Security	1997	2004
USAID's Primary Accounting System	1998	2005
Information Resources Management Processes	1997	2005

As an Agency-wide accomplishment in FY 2004, USAID managers successfully completed management control reviews of the Agency's financial, program, and administrative policies, procedures, and operations. As the results from overseas operating units were consolidated up to the bureau level, they did not disclose any new material weaknesses for the Agency in FY 2004.

In March 2004, the MCRC agreed to close the computer security program material weakness, based on the following:

1. The Agency completely revised its Information Systems Security Program Plan and implemented it throughout the Agency.

2. The Agency received a full Certification and Accreditation (March 31, 2003) on its General Support System (GSS), which is USAID's core network infrastructure.

3. The Agency implemented a security training program which reinforces IT security practices daily. The Security Tips of the Day program provides timely security reminders to system users each day they log in.

4. The Agency documented and completely identified its critical and sensitive systems.

5. Information Systems Security Officers have been appointed by the systems owners for each of the systems and major applications as well as for each mission subnet.

6. The Agency has established security plans for each system.

7. On a monthly basis, the Agency scans its entire network for potential vulnerabilities and reports on the risk status.

8. The Agency has installed firewalls at all missions that are centrally controlled for added security.

9. The Agency completed the Windows 2000 rollout of servers and Washington has begun managing each mission's domain controllers. This will decrease the variability of worldwide operations and ensure better security for the network.

10. The Agency established a "locked" down standard desktop under Windows 2000, centrally refreshes security policies daily, and centrally manages changes. This allows security features for the network to be enforced globally and increases security.

11. Anti-virus update signatures are being done weekly or more often if needed as a means to keep viruses and malicious code from infecting the Agency's network.

12. The Agency deployed six devices as part of an intrusion detection system and added improved tools for correlating events.

The Information Systems Security Program will continue its proactive risk management approach to address the new and evolving computer security risks to USAID's network and systems. As a result of the corrective actions implemented by the Agency, all of the recommendations made in the 1997 audit report on computer security have been closed.

USAID continues to implement actions to correct the two remaining Integrity Act material weaknesses.

FMFIA SIGNIFICANT MANAGEMENT CONCERNS

Title	Fiscal Year First Identified
Inadequate Physical Security in USAID's Overseas Buildings & Operations	2001
Implementation & Activity Monitoring of Programs in ANE Region	2004
Lack of Effective Systems to Manage Field Support	2004

A significant management concern is the USAID term for a deficiency that is important, but does not rise to the level of a material weakness under FMFIA. This year, the USAID MCRC noted three significant management concerns, which will be monitored internally.

Inadequate physical security in USAID's overseas buildings. USAID cannot implement appropriate actions alone to comply with federal physical security standards for all employees serving overseas. Although USAID complies with the Secure Embassy Construction and Counterterrorism Act of 1999 (SECCA) and the provisions of the implementing security standards, more needs to be done to safeguard USAID employees overseas. A recent GAO report on embassy construction indicates that following the 1998 bombings of two U.S. embassies in Africa, the State Department launched a multibillion-dollar, multi-year program to build new, secure facilities on compounds at posts around the world. The SECCA of 1999 requires that U.S. agencies, including USAID, co-locate offices within the newly constructed compounds. This report discusses how State is incorporating office space for USAID into the construction of new embassy compounds and the cost and security implications of its approach. GAO has recommended that the Secretary of State: 1) achieve concurrent construction of USAID facilities to the maximum extent possible and (2) consider, in coordination with the USAID Administrator, incorporating USAID space into single office buildings in future compounds, where appropriate. GAO also suggests that if the new cost-sharing proposal is not implemented in FY2005, the Congress may wish to consider exploring other means by which to support concurrent construction. Another recent draft GAO report indicates that State has proposed a $17.5 billion program to build secure new embassies and consulates around the world. The administration has proposed the Capital Security Cost-Sharing Program, under which all agencies with staff assigned to overseas diplomatic missions would share in construction costs. GAO has found that the proposed cost-sharing formula (based on a headcount) could result in funds to accelerate embassy construction and encourage agency rightsizing of overseas staff levels. Under the currently proposed program, State would build 150 new embassies by 2018, or 12 years sooner than the earlier projected completion date of 2030. State would pay nearly two-thirds of the annual amount needed, and non-State agencies would pay a one-third share. At the same time, USAID believes that co-location is not always practical. If USAID is required to move onto embassy compounds without adequate resources for separate non-classified facilities, this would result in the inability to co-locate with the Agency's foreign national and contractor staffs. USAID must weigh these issues carefully and determine how to proceed.

The implementation and activity monitoring of programs in several ANE missions, most notably, Iraq, Afghanistan, Pakistan, Lebanon, Yemen, and West Bank/Gaza. Security restrictions inhibit travel to project sites and it is increasingly difficult to attract and retain highly qualified staff for missions in these countries. This restricts the missions' ability to effectively implement and monitor programs and, in some cases, inhibits the start up of new programs. The missions continually strive to make prudent management decisions through approval of travel to project sites when advisable, expanded use of contractors, and making recruitment to fill vacancies a top priority. Improved stability and security that are beyond the manageable interests of the missions are viewed as the only long-term solution available. As this occurs, missions will take advantage of the new conditions and normalize operations.

Lack of effective systems to manage field support transfers. The intent of the field support system is to provide missions easy and flexible access to a wide variety of technical services provided by centrally-managed contract and

grant agreements, in a manner that meets the changing needs, priorities, and approaches of missions' development portfolios, with minimal mission management burden. The current operating procedures and processes in place are excessively labor-intensive, and therefore it is increasingly difficult to meet missions' needs. USAID recognizes field support as a viable component of the Agency architecture and as a component of the required Agency Executive Information System (EIS). In August 2004, the OIG issued a draft report on the audit of the field support mechanisms in the Global Health (GH) bureau, reaffirming the importance of implementation by the Agency of an improved field support system. Efforts are underway to develop both an improved field support system, which will operate with the rollout of Phoenix to missions, and a viable EIS.

MATERIAL NONCONFORMANCE OF FINANCIAL MANAGEMENT SYSTEM

As explained under the Primary Accounting System material weakness, USAID implemented a commercial-off-the-shelf (COTS) core financial system in USAID/Washington in December 2000. Despite the improvements to date, USAID is still not substantially compliant with the FFMIA of 1996. The primary remaining deficiency is that USAID's MACS, a feeder system to the core financial system, does not support a general ledger. Consequently, the core financial system is not substantially compliant with FFMIA requirements for a standard general ledger. Substantial compliance with the FFMIA is contingent upon further deployment of Phoenix overseas.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act (FFMIA) of 1996 is designed to improve federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles (GAAP) and standards. The FFMIA requires USAID to implement and maintain a financial management system that complies substantially with:

◆ Federal requirements for an integrated financial management system

Applicable federal accounting standards

◆ U.S. Standard General Ledger at the transaction level.

The OIG is required to report on compliance with these requirements as part of the annual audit of USAID's financial statements. In successive audits, the OIG has determined that USAID's financial management systems do not substantially comply with FFMIA accounting and system requirements. The USAID Administrator has also reported the material nonconformance of the financial management systems.

The current target date for substantial compliance with FFMIA is the third quarter of FY 2006, which coincides with USAID's worldwide deployment of the financial management system. This date was changed in October 2004, as a result of an overall systems rollout schedule change based on auditor observations, concerns regarding the stability of the next version of the systems software, and lessons learned during the summer 2004 pilot effort.

FINANCIAL SYSTEMS REMEDIATION PLAN

The financial systems remediation plan is a required part of USAID's financial management plans. It sets forth a strategy for modernizing USAID's financial management systems and details specific plans and targets for achieving substantial compliance with federal financial management requirements and standards.

The Agency relies extensively on OIG audit work to determine compliance with FFMIA. The results of the FY 2004 audit indicate that USAID has made substantial progress in becoming compliant and has two remaining items to address. The remaining deficiencies in the Agency's financial management systems and associated remedies are detailed on the following page.

USAID FFMIA REMEDIATION PLAN FY 2005 – FY 2006				
Deficiencies & Remedies	Current Schedule Targets	Revised Schedule Targets	Responsible Official	Status
Deficiency: MACS is not substantially compliant with JFMIP requirements for a core financial system. The MACS Auxiliary Ledger and interface to Phoenix do not sufficiently address compliance deficiencies. MACS does not support new e-Government initiatives. The Agency's overseas operations do not have access to the Agency's integrated financial management system that is compliant with federal requirements, standards, and government-wide initiatives. **Remedy:** Implement Phoenix worldwide as the Agency's core financial system.	4th Qtr FY 2005	3rd Qtr FY 2006	CFO	On target. Five missions are using Phoenix and the worldwide deployment schedule continues.
Deficiency: The Computer Security Program material weakness, and GMRA and General Controls audit work have identified significant deficiencies in the computer security program, general controls environment, and compliance with federal requirements. **Remedy:** Complete system and general control environment risk assessments, mitigate risks, and develop disaster recovery plans for mission critical systems.	1st Qtr FY 2004	2nd Qtr FY 2004	M/IRM Director	Closed 2nd Qtr FY 2004
Deficiency: IG audit findings indicate that the Agency is not able to attribute costs to organizations, locations, programs, and activities. **Remedy:** Fully implement cost allocation model to allocate the costs of Agency programs to the operating unit and strategic objective level.	4th Qtr FY 2005	3rd Qtr FY 2006	CFO	The cost allocation module needs to be modified to account for missions' indirect costs. This will be done as Phoenix is implemented in the field.

GOVERNMENT MANAGEMENT REFORM ACT - AUDITED FINANCIAL STATEMENTS

The Government Management Reform Act (GMRA) of 1994 amended the requirements of the CFO Act of 1990 by requiring the annual preparation and audit of agency-wide financial statements from the 24 major executive departments and agencies, including USAID. The statements are audited by the USAID IG. An audit report on the principal financial statements, internal controls, and compliance with laws and regulations is prepared after the audit is completed.

USAID's FY 2004 financial statements received an unqualified opinion – the best possible result of the audit process. This year marks the second consecutive year that USAID's financial statements have achieved such an opinion. USAID also, for the second year in a row, significantly accelerated the preparation and audit of the FY 2004 financial statements and associated reports. This indicates important progress toward the Agency's goal of providing more timely, accurate, and useful financial information.

In relation to internal control, the Independent Auditor's Report cites one material weakness: USAID's process for reviewing and reporting its quarterly accrued expenditures and accounts payable needs improvement. A material weakness is defined as a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing assigned

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

functions. USAID has continuously improved its status in this area, from seven material weaknesses in FY 2002 and three in FY 2003.

The audit report also names six reportable conditions, which are detailed in the table below. Reportable conditions are significant deficiencies, though not material, in the design or operation of internal control that could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. USAID will continue working on

these issues and is pleased that the auditors have consistently acknowledged the Agency's efforts to eliminate and reduce weaknesses. The auditors are also required to report on non-compliance with laws and regulations. The current auditor's report states that USAID's financial systems continue to be non-compliant with the FFMIA.

The following table summarizes the weaknesses cited in the FY 2004 Independent Auditor's Report, as well as planned actions to resolve the problems.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2004			
Material Weakness	**Planned Corrective Actions**	**Target Correction Date**	**Strategic Goal**
Process for Reviewing and Reporting Quarterly Accrued Expenditures and Accounts Payable	Actions to improve will continue and additional training will be provided.	September 30, 2005	Management and Organizational Excellence
Reportable Condition	**Planned Corrective Actions**	**Target Correction Date**	**Strategic Goal**
Certification Process for Mapping Strategic Objectives to Performance Goals	Actions to improve will continue with a focus on consistency of annual certifications and inclusion of all relevant information in the Annual Reports Database.	September 30, 2005	Management and Organizational Excellence
Process for Reconciling Fund Balance with U.S. Treasury	Actions to improve will continue including the development and implementation of additional reconciliation guidance and procedures.	September 30, 2005	Management and Organizational Excellence
Process for Recognizing and Reporting Accounts Receivable	Actions to improve will continue.	September 30, 2005	Management and Organizational Excellence
Intragovernmental Reconciliation Process	USAID will conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with federal requirements.	September 30, 2005	Management and Organizational Excellence
Process for Analyzing and Deobligating Unliquidated Obligations	Actions to improve will continue.	September 30, 2005	Management and Organizational Excellence
System for Preparing Management's Discussion and Analysis	Actions to improve will continue.	September 30, 2005	Management and Organizational Excellence

54 FY 2004 PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

Audit Management

The Office of Inspector General (OIG) uses the audit process to help USAID managers improve the efficiency and effectiveness of operations and programs. USAID management and OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations.

The OIG contracts with the Defense Contract Audit Agency (DCAA) to audit U.S.-based contractors and relies on nonfederal auditors to audit U.S.-based grant recipients. Overseas, local auditing firms or the supreme audit institutions (SAI) of host countries audit foreign-based organizations. OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.

During FY 2004, USAID received 495 audit reports; 439 of these reports covered financial audits of contractors and recipients and 56 covered Agency programs or operations.

During FY 2004, the Agency closed 498 audit recommendations. Of these, 205 were from audits performed by OIG staff and 293 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $4.4 million in disallowed costs, and $189.7 million was put to better use during the fiscal year.

At the end of FY 2004, there were 304 open audit recommendations, 42 more than at the end of FY 2003 (262). Of the 304 audit recommendations open at the end of FY 2004, only 13 or 4.3% have been open for more than one year.

As regards the 13 recommendations open for more than one year at the end of FY 2004, USAID must collect funds from contractors or recipients to complete actions on two of these recommendations. The remaining 11 require improvements in Agency programs and operations. Most of these are tied to USAID/Nepal's internal control weaknesses related to costs incurred on child survival/family planning services; USAID's staff training and development activities; and USAID's human capital data.

Management Action on Recommendation that Funds be Put to Better Use

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/03	9	$ 214,356
Management decisions during the fiscal year	11	5,377
Final action	14	189,698
Recommendations implemented	14	189,698
Recommendations not implemented	0	-
Ending Balance 9/30/04	6	$ 30,035

Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/03	92	$ 11,819
Management decisions during the fiscal year	178	7,779
Final action	169	4,367
Collections/Offsets/Other	169	4,367
Write-offs	0	-
Ending Balance 9/30/04	101	$ 15,231

DEBT MANAGEMENT

CROSS SERVICING, PROMPT PAY, ELECTRONIC PAYMENTS

Outstanding accounts receivable have decreased over the last two years, from $7.412 million in FY 2002 to $5.263 million in FY 2004. An accounts receivable due from the public is an amount owed to the government to satisfy a debt or claim. If an individual/entity has been billed, and the debt is under appeal, that debt is also considered a receivable. An analysis of accounts receivable balances can be found in the Footnotes to the Financial Statements.

	FY 2004	FY 2003	FY 2002
Receivables Referred to the Department of Treasury for Cross-Servicing			
Number of Accounts	55	49	54
Amounts Referred (in thousands)	$ 5,263	$ 6,243	$ 7,412

USAID is required by the Prompt Payment Act to pay its bills on time or pay an interest penalty to vendors. This chart shows that USAID has reduced its late payments from 4.52% in FY 2002 to less than $1/2$ % in FY 2004. In addition, we pay the vast majority of our bills by Electrionic Funds Transfer (EFT).

Timeliness of Payments	FY 2004	FY 2003	FY 2002
Interest Penalty Paid	$ 3,045.00	$ 17,825.00	$ 66,372.00
Percentage of Payments Paid Late	0.41%	1.17%	4.52%
Number of EFT Payments	21,309	20,690	21,108
Number of Check Payments	427	429	452

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